

HELSINKI SCHOOL OF ECONOMICS  
Department of Marketing and Management  
Faculty of International Business



**THE MANAGEMENT OF INTERNATIONAL ACQUISITIONS**  
The pre-acquisition process with a perspective on the involved expertises and  
the architecture of acquisition teams in Finnish based companies.

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ABSTRACT

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### **THE MANAGEMENT OF INTERNATIONAL ACQUISITIONS**

The pre-acquisition process in perspective of involved expertises and an architecture of acquisition teams in Finnish based companies.

#### **Research Objectives**

The main goal of this research was to study the management of international acquisitions. The key research problem was how international acquisitions made by Finnish companies are managed and organized, in terms of creating acquisition teams and coordinating the acquisition process. It was essential to study the acquisition process in terms of the skills involved and expertises and also to study architectures of acquisition teams.

#### **Research Methodology**

The theoretic part creates a framework which combines in itself the theories of an acquisition process, a management of acquisitions, required expertises for the process and on an international factor of acquisitions. The empirical part has tested and supplemented the framework by information gathered from interviews. The sample consists of nine large, well-known Finnish companies, which have recently undergone international acquisitions.

#### **Research Results**

The results present a synthesis of empirical with theoretical parts. Acquisition teams are assembled every time on a project basis, only after an internal decision to approach a target. The main mission of the team is to perform negotiations and due diligence. The early stage of the pre-acquisition process is pushed by an initiator. A steering committee mentors the acquisition team through a leader, who coordinates a core team and sub teams. A sub team is assigned to a concrete task. Acquisitions involve third-party companies to assist and to provide services to an acquirer, especially during the due diligence phase. The required skills should at first be divided by importance to be present in-house or ability to be outsourced. The most important in-house skill is an acquisition expertise; other important internal skills are operational, strategic and marketing skills.

#### **Key words**

management of acquisitions, acquisition teams, pre-acquisition process



## **Executive Summary**

The topic of this thesis is a management of international acquisitions, which is highlighted during the pre-acquisition process, until the deal is closed. Through the process perspective the thesis concentrates on the architecture of acquisition teams and expertises' involved. The empirical part studies international acquisitions made by Finnish based companies. At first, the study created a theoretical framework. Then, the framework has been tested by surveying acquirers. Altogether nine companies and managers have been interviewed. The aim was to create synthesis between the framework and empirics and provide a grater illustration and understanding of the topic.

The pre-acquisition process embraces from a zero point to the deal closing. The study divided that into two parts. The first part is lasting until an acquirer is decided to approach a potential target and made some previous agreements. After that, a second part starts and it lasts until the deal is closed or rejected. The first part includes strategic, searching and analysing phases. The second part includes due diligence, negotiations and closing phases. Phases are levels of actions which don't limit each other in time. It is possible that the first part of the process will have a numerous second parts.

An organizational architecture of the acquisition process considers a selection of people and a partition of responsibilities. Generally, every time a new acquisition team is assembled on the project basis, but there are some constant members. The team is assembled only when there is a concrete target appraisal, for negotiations, a due diligence and the deal closing, or to reject a target. Before that, the process is pushed by an initiator. Acquisition teams have a leader, who coordinates team and its sub teams. A sub team is build by a concrete task and can operate in a different level of involvement to the core team. The steering committee supports and mentors the team.

Every acquisition involves external companies to assist and to provide services to acquirers, especially during a due diligence. The fee systems are similar around the world, advisers charge by a spend time or by an amount of work. Investment bankers charge the success fee. Generally, the choice of an outsider is based on the people involved, expertises, previous relationship and reputation. Outsiders could become members of the core or a sub team, or a task could be totally outsourced to an outsider.

There are skills or expertises that should be included in the team. Those skills could be divided into two groups. The one represents skills that an acquirer should have in-house and another group embraces all other skills that could be outsourced, or brought by outsiders. The first group includes acquisition, strategic and operational expertises, since they could not be outsourced. All other skills belong to second group. The most vital is the acquisition expertise. The one of the most relevant skill is legal expertise. However, there is no skill that could substitute another required skill.

An international factor is noticeable in every phase of the process. However, the significant verifications are only at search, due diligence and negotiation phases. It extends the duration of the process and makes it more complicated. That also involves a longer term investment decisions and an ability to take a higher risk. The coordination process is more troublesome in the unfamiliar environment. Also, it involves a more advanced documentations and intercultural meetings. For global companies, an international perspective can be only noticed only in huge deals, since small deals are made by local representatives.

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# **1 Introduction**

## **1.1 Background of the study**

Mergers and acquisitions (M&A) is a popular discussion issue in managerial magazines and also in the scientific literature. There are a few reasons for that. The first is the growing amount of acquisitions. The second is the large amount of different stakeholders, skills and professions involved into the same process. This creates broad scholar interest of different sciences, like economics, accounting and finance, organization studies and etc. The third reason is a general attitude that most of acquisitions fail to produce intended results.

Scientists describe growing and diminishing trends of acquisitions, they call them acquisition waves. The first noticed waves have been registered just before the start of the 20 century in the US. Some scientists try to explain and find reasons for existence of waves. Despite the waves, overall trend of acquisitions is continuously growing. Especially, cross-border acquisition activity had a significant growth during the last decades. (United Nations, 2005)

The increase in cross-border activity is driven both by change in business dynamics toward a more global orientation and by developments in the environment such as increased communications and a general access to information. (Hawawini G. 1991) Also the growing amount of international acquisitions is catalyzed by several recent trends in global economy. The most general trends are:

- Growing global demand for 'niche' specialized and customized products.
- Progress in technologies, e.g. production, transportation, communications, etc.
- Internationalization of knowledge, technology and facilitating institutions
- Internationalization of financial markets
- More advance capabilities of people, including global entrepreneurs

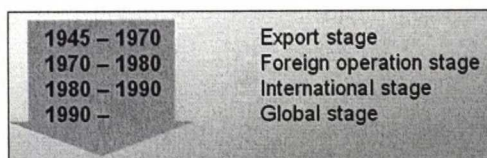
- Shift from local to global sourcing activities
- Growth of global networks

There are two main options of foreign direct investment (FDI): acquisitions and greenfield investments. Since the late 1980s, cross-border M&A have been the predominant way of global FDI. The main factors which contributed to an upturn in M&A were: low interest rates, higher profits and the recovery of asset prices, principally in developed countries. The reports show that many countries, especially developing countries, are continuing to adopt new laws and regulations with a view to making their investment environments friendlier for foreign investors. One of these is presented below:

*"The continued need of firms to improve their competitiveness by expanding into new markets, reducing costs and accessing natural resources and strategic assets abroad provides strong incentives for further FDI in developing countries in particular. Also, the improved profitability of transnational companies is likely to trigger greater M&A activity, which should also push up the levels of FDI in developed countries."* (United Nations, 2005)

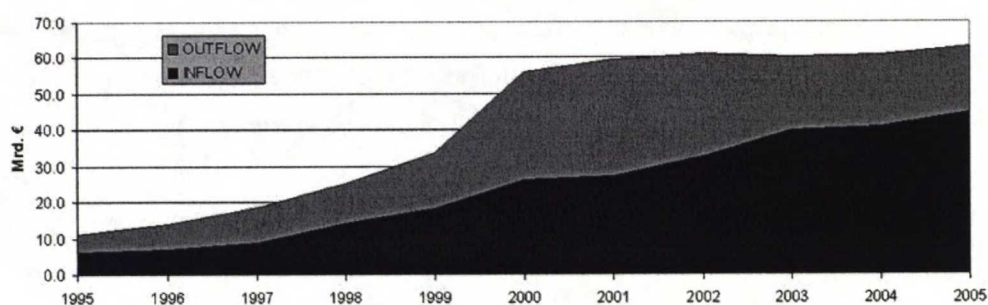
The literature is full of discussions that provide evidence of a high rate of acquisition failures. In general, these discussions state that statistically more than half of acquisitions fail. It should be mentioned that a large part of these articles belong to managerial press and are written by companies that are in a business of providing service for acquiring companies. These articles act as marketing baits and advertisements. By failure these studies often refer to those acquisitions, which have not achieved the specific goals and expectations set to them; not necessary unprofitable ones. At another hand, agency theory suggesting that managers have different incentives with owners. Managers have motives to set unrealistic goals and expectations that are difficult to accomplish in a future. Practically, the acquisition failure rate is not so high, like many authors claim. Here, the study will end a discussion of acquisition failures.

Finnish companies started to internationalize in the middle of the 20th century. Luostarinen has described the internalization process of Finnish companies. His findings are presented in Figure 1.



**Figure 1. The internalization process of Finnish companies. (Luostarinen, 1990)**

However, the first Finnish acquisition took place already in the 1930s, when a wood processing company – Kyme had acquired a production plant in the UK. Kone and Ahlström were also among the first companies to make international acquisitions. The first Finnish acquisitions were concentrated on the wood and metal industries. The amount of acquisitions has tremendously increased after the 1980s. (Pihkala, 2001) The geographical pattern of Finnish international acquisitions have followed a logical process, in which firms first enter areas that are culturally closest and then expand to more culturally and geographically distant markets. The amount of Finnish FDI is presented in Figure 2. Finnish companies are attractive to study since they have a strong push factor due to technological complexity and a small home market.



**Figure 2. Finland's FDI outflow and inflow. (Source: [www.tilastokeskus.fi](http://www.tilastokeskus.fi))**

The international perspective in acquisition activity enriches the process by higher uncertainty and complexity, especially if the acquirer does not have experience in the target's region and the national culture. Many researchers describe differences according to regions or study differences in national cultures. These dissimilarities, as



differences in business cultures, business standards and environments give extra challenges to the acquirer.

International acquisitions often involve external companies to assist in the implementation of an acquisition. This study will use the word “outsiders” to describe all third-party or external companies involved in the process. Outsiders can be used by both sides, an acquirer and a seller, however this study will concentrate on outsiders used by the acquirer.

Acquisitions are complicated processes which require understanding of business from various perspectives. That is why international acquisitions involve specialists of different fields. The thesis will study the required professions, expertises or skills critical in the acquisition process. By “skill” this study will refer to specific expertise. The relevance of this expertise will be studied in this thesis. This does not exclude that some professions or specialist, could have several skills required for an acquisition.

Process theory states that people who are doing acquisitions have a heavy influence on the success of the deal, not the deal itself. Usually, the acquirer has an acquisition team which leads and manages the acquisition process. Some acquirers have a permanent acquisition team or acquisition department, others every time assemble a new team. Acquisition teams have not been well studied and there is a clear lack of literature concerning the topic. This thesis will study the use of acquisition teams and the way they are coordinated in Finnish companies that have made international acquisitions.

## **1.2 Research Gap**

The acquisition process has been widely studied from different scientific perspectives. It is also one of the favourite topic of the managerial press. Commonly, the acquisition process is described by dividing the process into specific stages and phases, without



going into details about the management process. There have been a few authors who have partly covered the managerial aspect of acquisitions; most notable are Reinhard Meckl and John Triantis. Unfortunately, Meckl's literature has been published only in German, which closes it from the non-German speaking world. Other authors who have written books about the management of acquisitions, usually focus on giving general advises and providing check lists. (Meckl, 2004 and Triantis, 1999)

There is a lack of research concerning the management of acquisition projects, the acquisition team and the skills required for the process. There are plenty of managerial articles providing narrow guidelines on a specialization or profession oriented scope of the acquisition process. This could be taken as justification for a need of more scientific study with a holistic view concerning the topic. A lot of different views on the acquisition process can create a chaotic image of the specialities that might need for the successful acquisition. The aim of this study is to create a holistic view on the acquisition process and the acquisition teams.

### **1.3 *Rational for the thesis***

The justifications for the relevance of this study are based on five observations. The first, acquisition teams have not been well studied and there is a clear lack of literature concerning the topic. The second, process theory stresses that people who are doing acquisitions have a heavy influence on the success of the deal, not the deal itself. The third, Finnish companies are an interesting sample due to their strong push factor of the technological complexity and the small home market. The fourth, there is a growing amount of international acquisitions due to a fact that acquisitions are a fast way to grow business and to enter new markets, than are greenfield investments. The fifth, literature and press ad, there has been some evidence suggesting acquisitions are a favourite topic of the high rate failures.

Dionne has presented a view that completing successful acquisitions is an art rather than a science and emphasizes that this art requires a combination of skills and sensitivity, insight and instinct. (Dionne, 1988)

#### **1.4 Research problem, objective and questions**

The subject of this thesis is the management of international acquisitions. It should be noted, that the subject is very broad and are not be covered by the thesis. The study will concentrate on the acquisition process, specifically the people involved in making acquisitions and their skills. The summarized topic:

The management of international acquisitions.

The pre-acquisition process with a perspective on the involved expertises and the architecture of acquisition teams in Finnish based companies.

The most natural research problem would be to study the relative expertise of acquisition teams and the successfulness of acquisitions. However, this type of study would be too broad and would be difficult to keep within borders of a master's thesis. There are also other problems which could be chosen for further studies from this broad subject. However, the research problem which has been chosen for this thesis could be rephrased as the following:

*How are international acquisitions made by Finnish companies managed and organized, in terms of creating acquisition teams and coordinating the process?*

To answer the research question, the study will first be answering sub questions for more a logical and systematic approach. There are five sub questions and each of them relates to some specific issue and has its own sub topics.

- Process specification. What steps and actions need to be done during the pre-acquisition process?

- Organizational architecture. How people are structured and responsibilities are divided? How decision making is processed in the acquisition team?
- The usage of outsiders. In what phases and how outsiders are involved and coordinated?
- Stress of skills. What skills are required for international acquisitions?
- International perspective. What problems and difficulties international perspective brings in terms of managing and coordinating the acquisition?

The primary aim of this study is at first identify the most relevant pre-acquisition process steps, in the perspective that is relevant for managing, coordination and making decisions. This will lead to simplifying and dividing the process into phases of actions. These phases will be divided in terms of the taken actions, specific needs and goals. Probably, that division will lead to overlapping and even synchrony between some phases.

The second aim is to look at the process of managing international acquisitions as a project and define a model or pattern for creating acquisition teams and for the coordination the process. Also, the alignment of power and authority (decision making allocations) will be studied. This alignment will be studied between various participant involved in the process, e.g. owners of acquirer (Board of directors), acquirer's top management, acquisition team and sub teams. This study will also take a look on the usage of outsiders in different phases of the acquisition process.

The third aim is to identify relevant skills for the pre-acquisition process. In cooperation with the first sub question, the study will identify required skills in every phase of the process. The fourth aim is to highlight the international aspect of acquisitions and find out how it changes the nature and challenges of acquisitions.



## **1.5 Limitations**

The study will study large, Finnish based companies; however these companies are very different in size and stage of internationalization. Large companies will be defined as: minimum annual revenue of one billion euros or a minimum of 10 thousand personnel. In other words, the study will tend to pick up well-known Finnish companies, which have operations abroad. The study will try to include different industries to get a broader view and thus to enhance reliability of the study. Also all types of acquisitions, in terms of relatedness of business will be studied.

Pereiro defines three types of an acquirer: venture capitalists, strategic investors and financial investors. Venture capitalists usually enter the transformation cycle in an early stage, taking active managerial role upon improvement to seduce multinational companies to buy their business. Strategic investors are companies which are willing to expand their business, usually have knowledge about target's operations and business. Financial investors are companies or funds, which invest in stock without interest in controlling a target. This study is going to concentrate on strategic investors. (Pereiro, 2002)

According to different authors, the term "acquisition" is used with a different tint. Frommer, in her study describes that the usual view on acquisitions are generally seen as a friendly company purchase, but there are two official definitions for an acquisition. The first is when one company is taking over the controlling interest in another company. Second is an acquisition by one firm of another firm. (Frommer, 1998) Weston et al, use only first meaning that Frommer did, to define the acquisition concept. They also specify that the purchase will happen generally via a tender offer for the target's shares. (Weston et al, 2004) Johannsen and Page see acquisitions as a purchase of one company by another for cash and/or equity. (Johannsen and Page, 1995) Pereiro refers to purchasing a control interest. This study will use Pereiro's definition, since it is the best way to describe acquisitions made by strategic investors. The definition of



acquisition will be thus the following: acquisition is a purchase of targets control interest with a tendency to whole ownership. (Pereiro, 2002)

International acquisitions will not be limited to any region; only the domestic market will be excluded. At the same time, the study will assume that international acquisition will require the same skills regardless of the country or region, since the aim of this study isn't to identify differences between countries. This will eliminate similarities between Finland and some countries in terms of culture, legal and political environment, distance, etc.

The time frame will be limited to acquisitions made beginning in this century, since acquisitions are long time investments and require managers' time to realize the pros and cons of made decisions. However, the concentration of the study will be on acquisitions made after 2004 to obtain fresh information and avoid memory failures.

For several reasons, it would be difficult to take successfulness and failure of acquisition into the study. At first, companies are unwilling to talk about their failures. Also successfulness factors are usually classified information. Another issue is that since there are many stakeholders involved in the acquisition process, it would be difficult to define what caused the failure in the scope of an empirical study. Also, people who belong to the same stakeholder group might perceive failure in different ways.

## **1.6 Definitions**

*Acquirer - buying company*

This study is going to concentrate on strategic investors. More about the subject in the limitations part above, chapter 1.5.

#### *Acquisition, Takeover – a purchase of a company*

Frommer, in her study describes that the usual view on acquisitions is generally seen as a company buying another company in a friendly manner. On the other hand, a takeover is seen as “to bulldoze over the other company”. In this study takeover will refer to a hostile acquisition. (Frommer 1998, p2)

This study is using Pereiro’s definition, which refers to the acquisition process as a purchasing controlling interest and this study will use acquisition is a purchase of targets control interest with a tendency to whole ownership. (Pereiro, 2002)

#### *Acquisition team*

An acquirer’s internal team of people who manage and coordinate the acquisition process and all other people involved.

#### *Documentation*

BenDaniel and Rosenbloom describe basic documents used in international acquisitions:

*Acquisition Agreement* – the key element of transaction; sets all rights and obligation of both parties before and after the closing.

*Letter of Intent* – An expression of what the parties intend to agree upon “an agreement to agree”. Also known as: Term Sheet, Memorandum of Understanding, Current Status Letter, Proposal Letter.

*Employment Agreement* – where seller and buyer will want to ensure future employment of personnel.

*Non-competition Agreement* – seller’s agreement not to compete with acquired business of a limited time period after closing.

*Non-Disclosure Agreement* – Is a contract whereby the signers agree not to disclose certain information. Also know as: Confidentiality Agreement.

*Shareholders Agreement* – Provides a basis for the resolution of disputes and sets out the limits and procedures for how the company is to be operated.

*Share Purchase Agreement* – An agreement for the sale and purchase of a company's shares (or assets). Also: Business Purchase Agreement.

(BenDaniel and Rosenbloom, 1990)

#### *Bid*

An offer made by an acquirer to buy a target. The bid will stipulate both the price at which the buyer is willing to purchase and the amount of stock to be purchased.

#### *Business development*

Business development encompasses a number of techniques designed to grow an economic enterprise. Such techniques include, but are not limited to, a corporate restructuring. The general corporate restructuring methods are: merger, acquisition, joint venture, privatization (buy-out) and divestiture.

#### *Decision making*

Decisions are seen as a specific commitment to an action. The decision making as a set of actions and dynamic factors that begins with the identification of stimulus and ends with commitment to an action. (Mintzberg et al, 1976)

#### *Due diligence*

The investigation of a potential target performed by an acquirer. Due diligence serves to confirm all material and immaterial facts in regards to a sale. E.g. examination of operations, management and the verification of material facts, etc.

### *International Acquisition*

Generally international acquisition refers to an acquisition made across borders, in non-domestic country of the acquirer. Since it is difficult to define an international perspective for multinational company, an international acquisition will be defined as an acquisition which is made on the corporate level and involves a international team to complete it.

### *M&A – Mergers & Acquisitions*

The acquisition of a company is usually combined with the term merger, for example in the abbreviation “M&A”. Both concepts “Mergers” and “Acquisitions” are combinations of companies, but the atmosphere in which they are affected can differ considerably.

### *Merger*

The joining of two companies. It differs from an acquisition from an economic point of view in that in a merger it is virtually impossible to classify a company as being acquired.

### *Method of payment*

The method of payment describes the way a transaction is financed, usually divided into three groups: 1. Cash financing includes combinations of cash, debt and liabilities. 2. Financing with common stock includes payments with common stock or a combination with options or warrants. 3. Combination financing comprises combinations of common stock, cash, debt, liabilities, preferred stock, convertible securities, and other methods.



#### *Outsider*

In this study outsiders will refer to external companies, or third-parties, which would be used by acquirer in order to help during the acquisition process.

#### *Skill*

In this study skill will refer to expertise in a specific area. A person could have several skills at the same time.

#### *Strategic decision*

Many authors write that strategic decisions refer to long-term ones with a broad scope in reflect the organization itself and external forces. Mintzberg et al define more simply as important decisions. (Mintzberg et al, 1976)

#### *Success fee*

The percent based fee system for outsiders, which is depending on the deal's end price. Usually used with investments banks.

#### *Target*

A firm that has been targeted by another firm for an acquisition.

#### *Tender offer*

An offer to the shareholders of a company by the acquirer to buy their shares at a specified price in order to gain control of that company. Typically, this price includes premium to market price.

## **1.7 Method of the research**

There are different ways to make research and each way has its own strengths in a specific study. General examples are experiment, quantitative survey, archival analysis, history and case study. However, for this study the most appropriate way is through surveying, which is based on questionnaires and interviews. The preferred method is interviewing, since interviews are “guided conversations” rather than structured queries and questions. Interviews are open-ended nature, in which the respondents are asked about the facts of the matter as well as their opinions about events. That’s why this study will prefer interviews to other research methods.

The aim is to study large, Finnish based companies, which have done previously international acquisitions. The preferred interviewees are business development persons. The questionnaire has being developed for sending beforehand and being a guideline during the interview process. The methods used to analyze information were simple and traditional: logics, common sense and intelligence. More information on methodology is in the chapter 3.

## **1.8 Perspective**

This thesis is going to take a managerial point of view from perspective of an acquirer. That means that the study will take the point of view of a manager, who is implementing an acquisition, a coordinator of acquisition process or a leader of an acquisition team.

## 1.9 Structure of the thesis

The literature review will consist from a three different part. The first part, the chapter 2.1 will produce a general view on the acquisition and the pre-acquisition process. The second part, the chapter 2.2 will describe a literature concerning the management of acquisitions and organizational structures. Third part, the chapter 2.3 will summarize different views concerning required skills during the acquisition process. The framework will be represented at chapter 2.4. The empirical study consists from two parts. The chapter 3 will describe used methods for gathering data and the justification for these methods. The chapter 4 will present collected data and make an analysis and a synthesis with reviewed literature. The completion will consist from conclusions at the chapter 5.1 and related discussions at the chapter 5.2. The chapter 5.3 will have recommendations for future study.

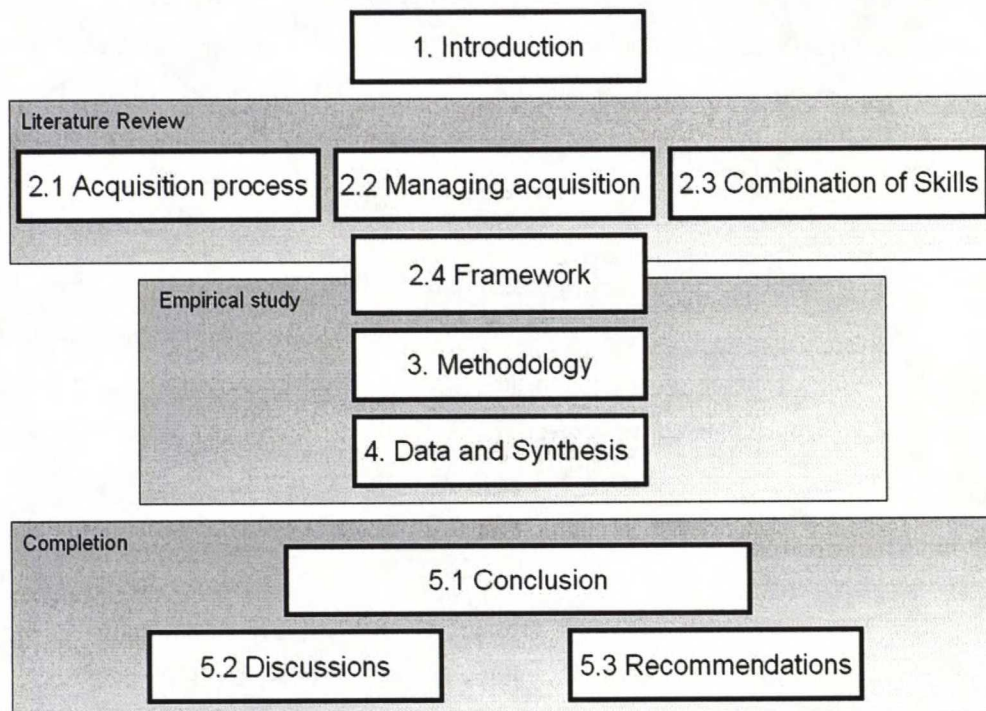


Figure 3. The structure of the thesis.



## **2 Literature review**

### **2.1 Acquisition process**

Any process could be studied differently and there are several ways in regarding the same process. These differences are usually caused by objectives and aims of a study. This thesis emphasises the managerial perspective and concentrates on the real taken actions and on the required skills of an acquisition implementers. The aim of this part is to develop a theoretical framework of the acquisition process in regards of the sub question: "What steps and actions need to be done during the pre-acquisition process?" The framework will be based on scientific literature.

Process theory highlights the role of the acquisition process as a potentially important factor for the acquisition performance. This school identifies that a decision making, involved skills and capabilities in process, and post-acquisition integration influence the outcome of an acquisition. (Haspeslagh and Jemison, 1991) This study will obtain the view of process theory on acquisitions. However, the integration part and performance of acquisitions will be dropped out, due to the limitations of the study.

Triantis agrees with process theory and claims that a lack of the understanding of an acquisition process is one of the roots, which causes the acquisition failure. The omission or the wrong order of steps in the process creates problems in the execution and in the implementation of the project. (Triantis, 1999) Meckl writes that a critical point in managing the process of M&A projects is to proceed from one phase to the next. Especially, extensive restructuring of the project organization is necessary. (Meckl, 2004)

There has been a lot of authors describing the acquisition process and dividing it into different stages. The differences are not crucially huge, but they indicating an angle of

the view. Every author has its own justifications for the method of a separation of activities. The most relevant for this study are presented below.

Bibler has stressed the importance of analysing cultures in organizations. He identifies three stages of the acquisition process, which are a pre-acquisition, a due diligence and negotiations, and a post-acquisition. During the first stage, acquirers analyse potential targets and identify its own strengths and weaknesses. The second stage consists of a financial, information analysis and a finding of fits and commonalities with the potential target. This analysis follows by an open discussion with target's owners and the management. The last stage is for a financial and physical integration. (Bibler, 1989)

Ivancevitch et al have created a model with four stages of the acquisition process. The first is a planning stage, where an acquirer considers its strategic needs and needs for an acquisition. The second is an in-play stage, where an acquirer approaches and monitors potential targets. The third is a standstill and transition stage, where an ownership is shifting and the first changes are happening. The fourth is a stabilization stage, where unforeseen changes have already taken place and a new organization has been stabilized. (Ivancevitch et al, 1987)

Sudarsanam has divided the acquisition process into three stages. The first is a strategic evaluation stage, which includes current a situation analysis, a development of the acquisition strategy, a search for targets, screening and making identification, and a strategic evaluation of the target. The second is a deal structuring stage, which includes development of a bidding strategy, a valuation and a pricing of the target, financing the acquisition, negotiating and closing the deal. The third is a stage of the post-acquisition development, which includes an evaluation of organizational and cultural fits, an integration strategy and program for matching strategy, organization and culture between a target and an acquirer. (Sudarsanam, 2003)

In reviewing the acquisition process, Weight identifies four phases: the initial planning, investigative, negotiation and integration phases. The initial planning phase includes

identifying of a business strategy, defining of acquisition criteria, identifying target markets and companies, selecting a target, issuing a letter of intent and developing the M&A plan. Activities at the investigative phase are focused on the due-diligence of finance, people, cultural, legal, environment, and operations. Other activities include setting preliminary integration plans and deciding negotiation parameters. The negotiation phase includes a setting of the financial, legal and structural deal terms, securing key talents and integration teams. The integration phase includes finalizing and executing integration plans on an organization, people, processes and systems (Weight, 2004)

Copeland et al divide the acquisition process into five parts. The first part of managing the pre-acquisition phase includes an organization of the acquisition, an evaluation of own strengths and weaknesses and identifying the value-adding method. The second part of screening targets includes establishing the knockout criteria, determining the leverage of investment banks, prioritize opportunities, search for various types of businesses of firms. The third part of value remaining targets includes an acknowledgement of acquisition's premiums, checking for synergies, determining a restructuring strategy, determine of financial engineering opportunities. The forth part of the negotiation includes a determination of the maximum acquisition price, an acknowledgement of the value of potential competing bidders, developing a negotiation strategy, conducting the due diligence. The fifth part of managing post-acquisition integration includes a movement and a careful process management. (Copeland et al, 2000)

Jemison and Sitkin, in comparison to other authors, had a totally different perspective and had divided the process not into stages, but in three dimensions. At one dimension they stress the process of acquisitions and claim that it has significant impact on the acquisitions performance. At another they put a pressure on the importance of making a strategic fit analysis and an accurate analysis of the target's organizational fit. The third dimension includes various barriers for analysing, negotiating and acquiring a target. Those barriers need to be analysed and overcame. All dimensions are important



strategic, organizational and process factors in the acquisition management process. (Jemison and Sitkin, 1986)

Salter and Wainhold have the simplest in division and the easiest view for understanding the acquisition process. It has three stages: a pre-acquisition, an acquisition transaction and a post-acquisition. The pre-acquisition process includes motives, a search, a selection and a valuation of targets. The acquisition transaction includes a transaction and an external reaction for it. The post-acquisition stage has acculturation, integration and merger. (Salter and Wainhold, 1987)

Authors	Acquisition Process				
Bibler	pre-acquisition		due-diligence and negotiations		post-acquisition
Ivancevitch et al	planning	in-play	standstill and transition		stabilization
Sudarsanam	strategic evaluation		deal structuring	post-acquisition development	
Weights	initial planning		investigative	negotiation	integration
Copeland et al	pre-acq.	screening targets	value remaining	negotiation	integration
Jemison and Sitkin	the process		strategic and organizational fits		various barriers
Salter and Wainhold	pre-acquisition		transaction		post-acquisition

Figure 4. The summary of literature concerning the acquisition process.

In this study acquisition process will be divided into three stages, according to the Salter and Wainhold view. Since, in regards of the needs of this study, Salter and Wainhold have most appropriate model. The study will concentrate on the pre-acquisition stage.

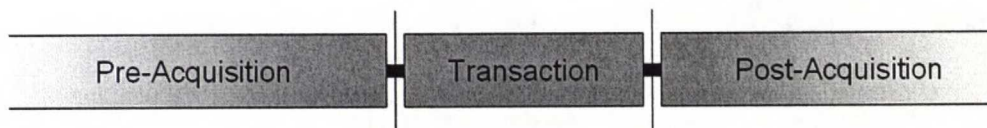


Figure 5. Three stages of the acquisition process.

The transaction and the post-acquisition will not be discussed in this study. However, it is good to be mention that many authors stress that an integration planning of the post-acquisition stage should be started during the pre-acquisition stage. The deepness of

integration should be carefully considered. There are many options between a total autonomy only with financial control to total integration with the acquirer. Hubbard writes that there is a correlation between motives of acquisition and chosen level of the integration. (Hubbard, 2001)

### **2.1.1 Pre-acquisition process**

It is natural that authors have a slide differences in regarding the pre-acquisition process. One branch of literature suggests that a pre-acquisition process is more an art than a science. The main argument is that an acquirer gets very limited amount of information about a target, on which he have to base his decision making. Especially, this is a case in a publicly traded company acquisition, where information sharing is restricted by authorities. Also in a horizontal acquisition, usually targets are afraid to reveal information that, in case of rejected deal, could have competitive importance. (Schweiger et al, 1993) Dionne is supporting the art view on completing successful acquisitions and emphasize that this art requires a combination of skills and sensitivity, insight and instinct. (Dionne, 1988)

Hubbard writes that the pre-acquisition phase is the most complicated stage of the acquisition process. Before closing the deal, the process includes several key decisions: objectives of the transaction, an appropriate degree of the integration, a method to choose advisors, a speed of the integration, a level of the employee's participation, a role of the target's management, integrating systems and employees, and addressing cultural differences. Hubbard had a review of other studies and concludes that many surveys show that after an acquisition is made, managers think that they needed to spend more time and effort in their pre-acquisition process. (Hubbard, 2001)

Hubbard sees a pre-acquisition process based on acquisition objectives. Through information gathering it moves to the acquisition overview. Than through information

assessment it become to the acquisition blueprint, which is the implementation plan. However, this is a too idealistic view and other surveys show that in a real life almost half of acquirers don't have an implementation plan before closing the deal. (Hubbard, 2001)

Pento writes that a background for acquisitions is characteristics of an acquirer, its strategic goals and also an external factor. After that, an acquirer shapes his attributes for a target. Then he moves to a searching phase and creates a list of potential targets. After making an analysis concentrated on fits (strategic, operational and organizational) the list becomes smaller. Then, the acquirer creates a business plan and marks some targets as likelihood if they have critical elements. Based on the analysis and the business plan, the acquirer gets the value for a target. A target has its own view on its value, that makes a final price the concept of negotiations. (Pento, 1990)

Rappaport suggests five steps of the pre-acquisition process. At first, a competitive analysis consists of identifying synergies between the acquirer's and potential other businesses' areas, by checking opportunities of cost savings or a product differentiation. Secondly, search and screen consist of developing a list of potential targets, and screening candidates. Then, the strategy development consists of developing a synergy-gaining implementation plan by creating strategies to the usage of synergies. Forth step, the financial evaluation consists of identifying or determining the maximum acquisition price, risks involvement, and the acquisition's impacts on the cash flow and on the balance sheet. The fifth, the negotiation consists of eliminate human nature-oriented problems and a resistance for change, emphasizing mutual interests and developing options for mutual benefits. (Rappaport, 1998)

Aiello and Watkins dividing the pre-acquisition process into actions, which happen in turns: screening for potential deals, an initial agreement, due diligence, a final agreement, closing. In a shorten version the process goes like following: At first a small team visits the target and find out target's expectations. After a mutual agreement, due diligence and learning of the target's management, the team is convincing target's



management to joint the acquirer. After that, they together develop a five year future plan. A team of 12-14 professionals with mainly operational background makes the acquisition happen. In case there is lack of some in-house expertise it is filled from external sources. (Aiello and Watkins, 2000)

Salter and Wainhold have cut the pre-acquisition stage into four phases: motives, a search, a selection and a valuation of the target. (Salter and Wainhold, 1987) In order to understand the decision making and the managing process of an acquirer and since this study will only concentrate on pre-acquisition stage, it needs to have a finer cutting of the pre-acquisition process into separate phases. The study will absorb views made above to create phases of the pre-acquisition process. The motive phase will be named as *strategic phase* and will include motives, acquisition criteria and strategy. This phase will also include delegation of responsibilities and creation of the acquisition team, in case it is not exist on the permanent basis. The search will stay as *search phase* and will include searching and monitoring area for potential targets. The selection will be named as *analysing phase* and will include a surface valuation and reducing potential targets group to a few or even one. The valuation will be named as *due diligence phase* and will include an evaluation of the concrete target in every specific aspect. Also this study is adding two other phases to the pre-acquisition process: negotiations and closing the deal. *Negotiation phase* will not include only selling price bargaining, but all interactions that took place between an acquirer and a target. *Closing phase* will include the final corporate decision on an acquisition, structuring and financing the deal, and making an integration plan. The order of every phase will stay as at mention above, however this study will keep in mind that in a real life many of those phases are overlapping or even performed simultaneously by different team members. The picture below represents the division of phases.

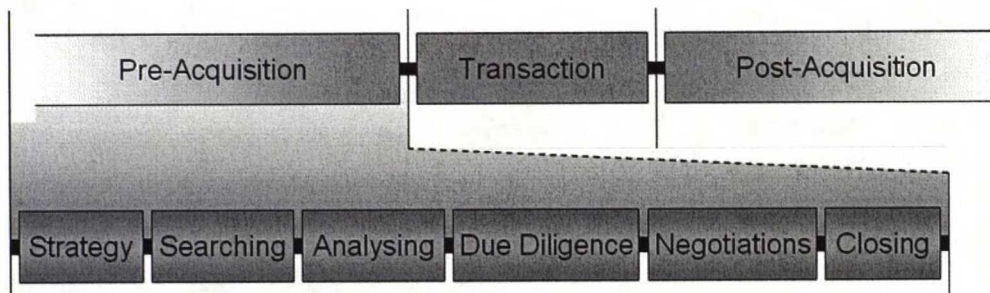


Figure 6. Pre acquisition process divided into phases.

### 2.1.1.1 Strategy phase

Acquisitions are mechanisms for achieving strategic goals. That is why acquisitions should be based on the strategy and not an accidental outcome. The idea is that the corporate strategy should be present in the whole acquisition process through the acquisition strategy that has to be created at first. An acquisition strategy should answer following questions: “Why? What type and sort of an acquisition? What should be accomplishing? How it should be realized?” (Von Krogh et al, 1994) In other words acquisition strategy should include motives for the acquisition, acquisition criteria and an acquisition plan. The last includes a delegation of responsibilities and a formation of the acquisition team, if that does not exist on the permanent basis.

An acquirer shapes the acquisition strategy based on the corporate strategy, on the condition of corporate resources and on the current environment situation. In the acquisition strategy, desired production lines and markets of a target are specified. An acquirer’s external environment has threats and opportunities which are taken into account in the acquisition strategy; in some cases an acquisition could be perceived as a respond to the changing environment. A defensive acquisition is a reaction to external environment threats and risks to defend own position. The self position is an important part of the acquisition strategy. (Virtanen, 1979)

Hariharan stresses the acquisition strategy and criteria, and the importance of monitoring that through the whole acquisition process. The idea is to keep in mind the strategy and motives to avoid buying a target for inadequate purposes. He describes the acquisition process as a screening an every important step against the acquisition criteria. The table represents his view on the process. Although this study will not take the Hariharan's division of the acquisition process, it will still accept the idea of checking strategic goals in an every phase of the pre-acquisition process. (Hariharan, 2005)

Screen Against Acquisition Criteria (SAAC)
Acquisition proposition → SAAC →
Pre-acquisition analysis of company's business → Re-SAAC →
Projection of future cash flow leading and financing → Re-SAAC →
Prepare integration plan, management, motivation and post acquisition plan →
Approach & Negotiation → Accounting investigation, Modification of projections and plans on the basis of further forthcoming information → RSAAC →
Buy → Immediately put into practice integration plan modified as necessary →
Improve management performance

Figure 7. The Table of Process Screening Against Acquisition Criteria. (Hariharan, 2005)

Most of acquirers tend to see not only financial benefits in an acquisition, but also the strategic, operational and organizational fits. In another words, for the most companies an acquisition is the strategic move, not just a investment. In the corporation, there are a hierarchy of objectives; it is presented in the Figure 8.

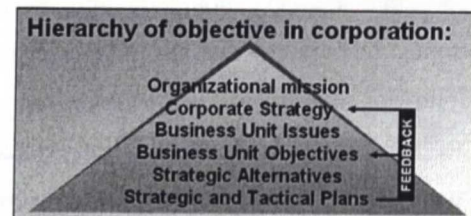


Figure 8. Hierarchy of objectives in corporation. (BenDaniel & Rosenbloom, 1990)

Some authors organize acquirers into different groups according to motives and the frequency of made acquisitions. E.g. Business International publication divides acquirers in a three group: Carnivores – constantly making acquisitions, more than 10 per year. Vegetarians – tend to leave their purchases alone or treat them as corporate pets. Gentleman shooters – make occasional acquisitions, usually the biggest group. (Business International, 1988)



### **2.1.1.2 Searching phase**

Mintzberg et al. identify four different types of a searching behaviour: 1. Memory search – a search for existing knowledge either on the paper or in the people’s mind. 2. Passive search – waiting for unexpected alternatives to appear. 3. Trap search – activating “search generators” to produce alternatives. Alternatives are also looking for organizations. 4. Active search – direct searching for alternatives. (Mintzberg et al., 1976) The form of search is usually depends on the firm’s commitment and the degree of a experience of the acquirer on the market. In practice the memory search is a quite uncommon and a little unrealistic option. The passive search could describe acquirer’s readiness for an acquisition and the lack of resources, time or a final decision to start the process. In that case an approach to an acquirer with an appropriate offer could speed up the process. The trap search responds to an acquirer that proceed through the help of external companies (e.g. investment banks, business brokers or etc.) to gather information on potential targets and a possible acquisition. The active search describes that an acquirer makes own research and screens the market for potential targets.

The managerial press is full of articles concerning the successfulness of acquisitions. A view suggests that successful acquirers are always on the lookout for deals and searching for potential targets. Another view suggests that a successful corporate acquirer at first evaluates at least three potential markets to enter and chooses the best appropriate with its strategy. Only after that, it screens the market with an aim of getting from five to ten candidates for a potential acquisition.

The general view is that an acquirer should find as much potential candidates as possible, since the assessment of large volume of opportunities provides two main benefits for the acquirer: an overall sense of what kinds of strategic acquisition opportunities exists and making the acquirer better to assess the value of each potential target in the relation to others. In addition, it forces acquirers to bring disciplines and speed to the screening process.

### **2.1.1.3 Analysing phase**

After the search is made, there could be a big population group of potential candidates. It is not easy to narrow down the group to a few potential targets. Reasons for that could be a limited amount of information and a quality of information, which is usually qualitative and in the describing form.

There are two things which make one potential candidate better than another: the synergy potential and the closing price. Since the closing price is not possible to predict before a due diligence and negotiations, it is not relevant to consider it in that phase. That is why in the analysing phase an acquirer usually focuses on the compatibility of two companies. The two main compatibility measures are organizational and operational fits. The superficial analysis of target's resources compatibility with acquirer's will make a cutting down the quantity of candidates much easier. Another method is to create an ideal profile for the target and then rank all candidates by comparing them with the ideal profile. That will ensure that potential targets will have strengths that will complement acquirer's weaknesses. There is also a method of giving a maximum and a minimum limits to every parameter and put every screening candidate in order of superiority. The order should be based on strategic criteria, the target's functional analysis and the synergy potential. The most common things what acquirer is checking at this phase are: an industry, a market share and a target's size. (Virtanen, 1979)

There is no rule for the final quantity of potential targets. Usually acquirers try to bring this to the minimum, to avoid big amount of work in the further phases. Usually, the last issue that is studied in the analysing phase is the willingness of the owners to sell a target. Not all companies are for sale, even for a high price. Especially family owned companies tend to be irrational sellers.

#### **2.1.1.4 Due diligence phase**

Hubbard writes that the goal of a due diligence is to provide a professional indemnification from provided financial information and a target's business's state of health. At another words, due diligence should provide all necessary information which would be included in the valuation, such as financial information, cultural and strategic fits, a synergy potential, a management fit (philosophy and attitude), a management talent, corporate demographics (relative size of parties, histories of companies, track record, etc.), a structural fit, industry and geographic demographics, a wide-range competitor analysis. (Hubbard, 2001)

Hubbard also points out that an insufficient information gathering in the form of the due diligence usually has caused problems later in the future. He uses a portrayal of "skeletons in the closet". Hubbard tells that a problem is that the most due diligences focused on financial issues, which are issues that could ruin the deal, and are not issues that could sink the company after the deal. (Hubbard, 2001) One of the main focus of the due diligence is to avoid an "acquisition disaster", which can happen if key liabilities went unnoticed before closing the deal.

Marks and Mirvis identify three main areas of pre-acquisition process: strategic, operational and psychological. The first supposes to clarify and to focus the sources of synergy in a combination. The second tries to identify potential synergies in terms of party's structure, culture and desired relationship. The third is examining a people's mindset in term of the readiness and the awareness to coming stress and strains of the upcoming combination. (Marks and Mirvis, 1998)

The acquisition team also have to continually assess and following aspects: purpose, partner, parameters, and people. The purpose stands for defining a strategic intent of both parties and identifies facts that supporting the deal. The partner refers to clear and



cogent criteria in the usage of a research of the target, an assessment of cultural and organizational fits, conducting a due diligence in manner that could bring better information what could be merged, changed or kept separate. The parameter – a creation of relationship between parties and drafting the final stage of the integration. The people – to prevent the resistance to the merger and to prevent the preservation of a winner and loser attitude. (Marks and Mirvis, 1998)

A lot of writers stress the cash flow predictions, which is a picture of the target's future profitability. However, the due diligence phase has a lot of other analyses included: profitability and financial, product and market, productivity, R&D, organization and management, juridical, target's strategy, steering systems and corporate culture analyses. (Virtanen, 1979) The purpose of the due diligence could differ from an acquirer, the most common reasons are: to identify a maximum price for the target, to have a rough base to start negotiations, or to have an investment plan and a justification for internal purposes.

The essential point is to recognize that there is no single, correct answer to the question of how much a company worth. (Pearson, 1983) This creates a conflict between parties of a deal and even a conflict inside of the acquiring company. There is often a confusion about three separate issues: the valuation of assets and liabilities; the valuation of the business going concern; and the determination of the final sales price. The three are often related but they are seldom identical. (United Nations, 1993)

The article of Harvey and Lusch suggests that due to a variety of factors, including a changing legal environment and the high cost of failure, a model is developed for an expanded view of the due diligence. This model enables an acquirer to assess both tangible and intangible assets of the target firm and its internal and external environment. The model suggests making sequentially seven separate audits: 1. financial, 2. legal, 3. macro environmental, 4. marketing, 5. management, 6. production, and 7. information systems. Authors stress that the due diligence process should be as comprehensive as a time and a money are allowing. It should provide decision-makers

with information on opportunities as well as potential problems. However, they also point out that each due diligence should be adapted to the current situation, due to an uniqueness of every acquisition. (Harvey and Lusch, 1995)

To complete the due diligence an acquirer needs to get access to disclose materials, property and personnel. Before providing such access, a target wants to secure itself by getting some sort of a previous agreement. The common documents are the letter of intend and the confidentiality agreement. The definitions of documentation could be found at the chapter 1.6.

The usual problem of a due diligence is that a target limits the amount of information and time for the information collection. Generally, the information collection happens in closet data rooms, in a targets law office, without the right to photocopy and to sent documents. Hubbard suggests that another sources for the information collection should be used, as a personal experience, a market knowledge, media, negotiations, industry contacts, etc. (Hubbard, 2001) There is a natural tendency amount target's personnel to manipulate information, even if there is absence of any negative factors. The main reason for that is a direct impact of all information on the closing price.

#### **2.1.1.5 Negotiation phase**

Hubbard claims that longer negotiations could lead to a greater understanding and trust between parties and to a more positive management attitude from the targets side. For an acquirer negotiations are also an important source of information. (Hubbard, 2001) Also other authors suggest that in negotiations an acquirer should check every detail that he didn't got form the due diligence.

Previous studies have found that the negotiation behaviour is a key factor in determining the results of negotiations and the subsequent implementation, and the performance of a strategy. Some scholars have paid a lot attention to defining "smart" negotiators. Some studies suggesting that the cognitive ability (the type of intelligence commonly measured by psychometric tests) predicts an individual performance in many related contexts. In addition to a cognitive ability, other definitions of an intelligence (e.g., emotional intelligence) have been proposed that theoretically could influence negotiation outcomes. The experience of an acquisition team plays a huge role in negotiations. An acquirer should be aware of own negotiation skills. The acquisition team should be agreed on guidelines, but each team member has a personal view and that could passively reflect to negotiations. Triantis writes that there is a need for obtaining as many concessions in negotiations as possible, and that is why the negotiation team should include a senior manager, a financial analyst, a lawyer, a business development manager and a key technical person. (Triantis, 1999)

After all information is gathered, the negotiations proceed to the price bargaining. This is essential point that lays on the conflict between an acquirer and a target. Both parties drug a price to different directions, either by a smart argumentation or by simple statement of the price. However, it is more common that negotiations are based on the argumentation of different perspectives to the value of a target. Another method is to find mutual interest points and determinate a price for them. The problem is that in the international acquisition, even the perception of the external world could be totally different (e.g. a development of economics, probabilities of future scenarios, a cost of the capital, a risk attitude, etc) and that makes negotiations even harder and more problematic to find a common value of the target.

The negotiation phase consists of necessary steps to reach an agreement on the price and terms that are mutually acceptable. At first, an acquirer should develop a negotiation strategy. A written negotiation strategy is based on a approved value of the property, a comparable sales data, a general market data, and on any other information that have been regarded by the acquisition team. This strategy should be reviewed by the top



management and approved for negotiations. Only after that negotiations could start. The negotiations are successful, if the price and contractual terms, and conditions are memorialized into a contract agreement which is executed by the parties.

Fisher and Ury write about Zone of Possible Agreement (ZOPA), which could exist if there is a potential for the agreement which would benefit both sides more than other alternative options. That could happen if an acquirer's maximum purchase price is bigger than a target's minimum sell price. The difference between these two can be called as the negotiations ZOPA. Through exploring their various interests and options parties could find out whether a ZOPA exists. In case it does exist, there is a good chance that parties will come to an agreement. (Fisher and Ury, 1981)

Fisher and Ury have created also another term for negotiators, the Best Alternative to a Negotiated Agreement (BATNA). Acquirer's BATNA is the only standard or several options to acquire another target. BATNA can be regarded as having all favourable options in mind. Having a good BATNA could increase an acquirer's negotiation power. The seller's BATNA should be also considered. The more an acquirer learns about seller's options, the better prepared it will be for negotiations and able to develop a more realistic view of what the results may be and what offers are reasonable. (Fisher and Ury, 1981)

A compromise could be also a solution for the negotiation process. In a compromise situation, neither side gets all of what they really want, but they each make concessions in order to reach an agreement that is acceptable to both. In acquisitions, when there are multiple issues to be negotiated, parties may make additional concessions. The basic idea is that each party gives up something that the other party values but that they themselves do not care about. (Fisher and Ury, 1981)

It is possible, that there is no option of a mutual agreement. That is why, an acquirer should be ready for that, and have "walk away" conditions before starting negotiations, to avoid an involvement in the deal which is unfavourable. The "walk away" price

could be BATNA, or just a maximum price that the acquirer is ready to pay for the target.

Some acquirers using help of external companies to handle negotiations. The possible outsider could be investment bank, mediator or etc. A mediator could be used by both parties to tell is there any agreement area and to make attempt for a joint analysis. The use of a mediator is not so common but some studies show that a mediator brings a positive outcome for both parties.

#### **2.1.1.6 Closing phase**

There is no much literature concerning the closing phase of the pre-acquisition process. However, it is important to include it that the all unembarrassed actions of the pre-acquisition process will be included in this study. The main thing happening in the closing phase is a final decision made by the acquirer to acquire a target for the concrete price with specific conditions. This decision making could have different paths according to a company and a size of the acquisition. In some situations an acquisition team have enough power to make final decision, in other cases that needs to be decided by the top management.

In case, the acquisition team is making a final decision, there are three ways to make it: consensus, compromise or democratic voting. Two last options are a strong sign that there is something wrong in the team. When people from same company, having same goals and motives are having different views that mean that people understand differently the basic points, or a procedure, or something else. The goal is to take understanding of an acquisition team to the same level and to reach the consensus.

Hubbard states that before the transaction stage, there are seven decisions that are usually made to ensure that an acquisition meets its objectives: the degree of integration,

the degree of cultural relatedness, the level of employee participation in decision making, the speed of integration, whether or not to integrate systems, the role of the target's senior management, the degree of integration employees. (Hubbard, 2001)

The method of payment decided at negotiations with a target. There are three basic payment methods, which are by cash, by stock, or an earnout method. The last one considers that a seller gets a part of the price straight after the deal and another part is depending on a target's future performance.

Many authors have stressed the importance of starting to plan integration before the transaction stage and to create an implementation plan. This could be very crucial for the integration stage. Some authors even have a such view, that it should be started already in the strategic phase. However, in practice, it has a difficulty of unsecured that the deal will take place and there is not much information available. (Hubbard, 2001; Dionne, 1988) At another hand, some authors see this planning not so vital and stats that often pre-acquisition plans looking quixotic and too idealistic from in retrospect. (Von Krogh et al, 1994) The simplest implementation plan considers following issues. Actions to be taken in addressing acquisition issues. The schedule of actions. People that is responsible. Affected people. The nature of the change. Success measures. The logic behind changes that have occurred.

### **2.1.2 Timing and Momentum**

*"More powerful than the tread of mighty armies is an idea whose time has come."*

– Victor Hugo

Many authors write that managers have a pressure to close the deal as soon as possible and that a success of the acquisition is depending a lot on the acquisition process timing. A reason for that is that decision makers need for a secrecy and an intense concentration. At the same time, while rumour goes around the deal, an every stake of



the acquirer and the target feels uncertain about future; e.g. employees, suppliers and competitors. Managers who are involved in the acquisition tend to isolate themselves from other company activities. Jemison and Sitkin writes that a time commitment of these managers reduces willingness to walk away from the deal and even increases the pace to complete the transaction and to eliminate the stress. Also investment bankers have motives to speed up the pace, since usually their fee is not depending on the spend time. (Jemison and Sitkin, 1986) Triantis writes that one of the biggest problem is a tendency of managers is to go through the evaluation stage too fast and the integration stage too slowly. That is exactly the opposite of what should be taking the place. (Triantis, 1999)

Also negotiations needs time, which could be regarded as a psychological room for the decision making. Fisher and Ury suggest that the timing of negotiations can also be a key. Parties resolve their conflict only when they are ready to do so. In some situations, the alternative with a satisfactory result are blocked and the parties feel that they are in an uncomfortable and in a costly predicament. At that "ripe" moment, they seek or are amenable to proposals that offer a way out. Although ripeness theory cannot predict when a given situation will become a ripe, it can identify some elements necessary for productive negotiations. Finding a ripe moment requires research and intelligence studies to identify the objective and subjective elements. In reality humanity makes sellers more irrational, especially if target belong to a family business. The frequent obstacle is that seller is just not ready to sell, but after a while he might approach the decision to sell. (Fisher and Ury, 1981)

## **2.2 Managing acquisition projects**

This part will present the literature concerning the management of acquisition projects. The aim is to build the theoretical base for sub questions addressed in the introduction chapter. At first, this part will present literature on a subject of the organizational architecture and approach sub questions: "How people are structured and responsibilities are divided? How decision making are processed in the acquisition team?" Then, the usage of outsiders will be considered in the sub question: "In what phases and how outsiders are involved and coordinated?"

There are only a few authors who write about management of M&A projects and especially put it as a critical factor for the successfulness. The process theory emphasise that the process and how it is managed is very important for the acquisition outcome, also decision making approaches is important. (Trautwein, 1990) Von Krogh et al emphasise that understanding of the management process of acquisitions is crucial for the success. (Von Krogh et al, 1994)

Jemison and Sitkin have suggested interesting and untraditional views on how acquisitions could be organized. The first solution is when outside consultants are studying both, an acquirer and a target. And after analysing without knowing the actual intent of an acquisition, they will revert to managers with an initial report and a suggestion for an acquisition. The second solution is to create two in-house acquisition teams, the one would support the idea of an acquisition and the another would oppose it. The important issue is that key decision makers can remain as detached evaluators. Another solution is when influential officials from both companies are adopting complementary roles, and focusing on the process and the integration. (Jemison and Sitkin, 1986)

Meckl writes that the unique nature of every acquisition, heterogeneous activities of the acquisition process and different interests of participates of the process make managing it extremely difficult. The whole process should be moved through a deterministic

planning and be flexible enough for the successful coordinating. Meckl emphasise three issues in managing M&A projects. First, creation of an organizational structure of the project, which should include both, the description of teams and departments, and the description of work flow within the project. Second, allocation of people with a view to quantity and quality of involved personnel. Third, dividing responsibilities in dependence of people's positions and their skills and abilities. (Meckl, 2004)

The managerial press stress following things in managing acquisition projects: identifying key decision points that would affect a deal, key team members who would need to be involved, as well as reporting templates and a scheduling tool. The consideration points are including a project plan, an acquisition team structure, a contact list (roles and responsibilities), a findings report (potential opportunities and liabilities), comparisons for structuring the deal, a communication plan, and open/closed issues log.

Stahl writes that acquisitions fail on the reason of the poor execution. The most often mistakes are an instance of the insensitive management, a lack of trust building and communication, a slow execution power alignment, and a lack of leadership. He also writes that companies a looking to an acquisition too much from financial and operational perspective. (Stahl, 2004)

## **2.2.1 Organizational Structure**

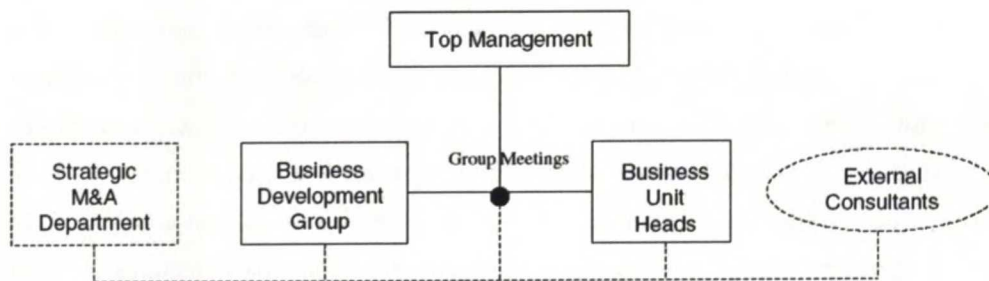
### **2.2.1.1 Structure**

The intent for an acquisition could come from different parts of an organization, or even from it's outside (e.g. investment bank). The internal sources could be owners (board of directors), top management, business development department, operational business unit or etc.



The way how an acquisition is managed a lot depends on acquirer's resources and its organizational structure. According to Meckl, there are could be three different approach of managing acquisition: an expert, a team and a department approaches. The first one, an expert, represented when the top management of an acquirer is initiating and leading the project. The team approach represented when employees from various departments are assigned to the project. The department approach means that the acquirer has of a separate department of acquisition professionals with ability to fulfil and to complete acquisitions. (Meckl, 2004) The expert approach requires a lot of managerial energy and resources, since management still have their daily business to handle. This creates a danger that one of tasks will be left aside or done less correctly. (Pearson, 1983 and Von Krogh et al, 1994) There are correlation between the size of an acquirer and its approach. Biggest corporation have usually separate acquisition departments or at least business development department. Smaller companies form an acquisition team on the project basis. Even smaller companies manage acquisitions with the force of the top management. Of course not only size affecting that, but also dynamism of the business area and a frequency of made acquisitions.

The process of acquisition is not smooth at all; the pre-acquisition has a lot of fluctuation in the intensiveness. The early pre-acquisition stage includes strategic, searching and analysing phases don't use as much resources as latest pre-acquisition stage, which starts with initial agreement, and includes due diligence, negotiation and closing phases. Meckl suggests that in the early pre-acquisition stage the most of decision made by a team of people including the top management, supported by experts from the business development department (if such exists), by managers from business units concerned and in some cases by external consultants specialized in an acquisition consulting or in a strategic consulting. In case an acquirer has a separate acquisition department, it should be included into process from very beginning. In the early pre-acquisition stage, the coordination and the division of responsibilities usually lie down on the starter of the intent. (Meckl, 2004) The picture represents an early pre-acquisition.



**Figure 9. The organization in early stage of acquisition. (Meckl, 2004)**

The most important issue is to transfer from an early pre-acquisition stage (strategy, searching and analysing) to a later pre-acquisition stage (due-diligence, negotiation and closing), since it is expansion from a relatively informal project organization to an accurately structured and coordinated macro- and micro-organization. Handing over of documents and protocols often doesn't provide a desired transfer of experience. That is why the key members from an early pre-acquisition stage should be also involved in the later stage. (Meckl, 2004)

The following part of pre-acquisition process is more complicated. It involves more details in a managing and an organizing the project. Meckl emphasises that a due diligence, a determination of the stand along and integrated value, and negotiations are highly challenging tasks. This part of the project also includes complex sub-projects, which have numerous of experts and some of them are from an outside of company. It demands a high volume of coordination, a vertical and horizontal communication and also results must be aggregated to clear statements and guidelines. (Meckl, 2004)

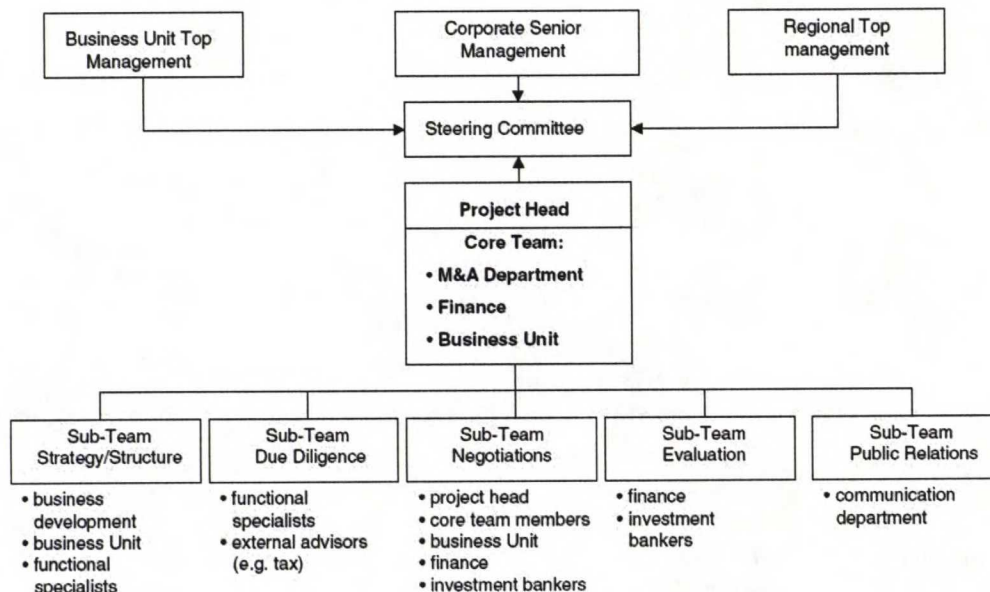


Figure 10. The organization of the acquisition team (Meckl, 2004)

Meckl describes a structure: the steering committee is making sure that an every relevant department is included and that it has an ultimate decision making right for the project. Itself it usually consists of the top management, a relevant business unit and a current regional top management. The project head is usually included in a steering committee and he is in charge of managing an acquisition. His responsibility is to keep steering committee up to date. The person in that position should have qualification and acceptance. In the ideal case, it is a member of a central acquisition department, if such exists. If not, than it could be a manager from a current business operation, who will probably take a high position in the target. The core team is lead by a project head and represent a central platform for the coordination of all participants in the project. The core team should be filled for full time employees from an acquisition department, from a current business unit and from a financial department, sometime this three are also combined with people from a legal department. The size of the core team depends on a volume of an acquisition transaction. Usually members of a core team are simultaneously being a heads in the sub-teams, which are staffed with employees and external consultants who has special skills for solving a concrete task. In sub-teams,



people are usually working for a part-time and in a combination with their ordinal responsibilities. (Meckl, 2004) The above picture represents a later part of the pre-acquisition process.

#### **2.2.1.2 Teams**

*“Getting the players, that’s the easy part. Getting them to play as a team, now that’s the hard part.”* – Casey Stengel, New York Yankee Hall of Fame manager

Mintzberg et al found evidence that a formal diagnostic step is taking place after decision process has initiated. This step is in the form of setting up an investigating committee or a task force, or the requesting consultants to analyse a new issue. (Mintzberg et al, 1976)

The team theory is based on that performance is enhanced when people with a same interest cooperate to find solutions. To get results, a team should be properly focused, trained, implemented and supported. Especially experienced firms have developed the custom of creating a separate acquisition team. The main reason for that is that experienced firms are usually bigger in a scope and has more resources to set up a separate task force or even a department. Also experience comes to recognize the need for a separate acquisition team and already developed a certain norm for their acquisition practice, which could be formalized in the form of an acquisition team. Additionally, for small size company an international acquisition is relatively more important and hence it requires all important decision makers to be involved in the process.

Many departments will be involved in the acquisition process. They will participate before, during and after the decision is made. It is a mistake to overstaff the acquisition team at the start stage. The best way is to take people which are oriented toward

marketplace, its motivations and its wants. The final decisions should be on the responsibility of those with the broadest view. (Hamilton, 1985) It is important to define an optimal size of the acquisition team. Too small size can result in a lack of skills and experiences. At another hand, a bigger size will reflect in a slow and inefficient decision making process and a more difficult control and a coordination of the team.

Triantis writes that it is essential that team members share common goals and objectives and maintain continuity of purpose throughout the project. Senior managers are often excluded from the team to avoid barriers in communication and their passive power influence on the decision making. (Triantis, 1999)

Managerial press has a discussion of building high-performance teams. One view is that creating a team from self-directed managers is very difficult. The cooperation often fails for many reasons, such as a lack of communication, a decreased performance, negative emotions and a lost focus. The underlying reasons for that are manager's egos, conflicting interests, an ineffective leadership from above, a lack of team skills, no perceived benefits, system and structural barriers for cooperation. To solve these problems a leader of the acquisition team should build understanding of the process, clarify roles and goals, integrate activities, identify and resolve potential conflicts, and try to develop teaming skills. (Clinton, 2001)

### **2.2.1.3 Leader**

Dionne writes that an acquisition is an art of combining skills and sensitivity, insight and instinct. Also information importance is stressed in that article. It is important to choose a right person for leading the acquisition process; it is good to be a person who has experience in acquisitions, know how to utilize skills of the team, understand a strategy behind the deal and has good negotiation skills. (Dionne, 1988)

For the leader, it is important to optimize different activities and to coordinate participants. It is necessary to continuously give participants orientations of the project with overall company objectives. The leader has to measure and balance an efficiency of the project in a sense of tradeoffs between costs and benefits. Since, participants are taken from different fields the quality of decisions should be ensured. (Meckl, 2004) The leader has to remember that each team is exclusive and same methods could not be used to an every team. Usually the leader also has a responsibility for the selection of team members. A central success factor is the selection of personnel, which is usually in a hands of the project leader. (Meckl, 2004)

The management of acquisition team requires creation of clear deliverables and timetables systems. It's good also to understand, that acquisition team needs resources and will develop own working style overtime. Effective project management requires, among other things, that project teams would be organized to accomplish the project's objective; has a written policy for project; document their plans for the activities of the project team; has the authority to alter either the project's performance, cost, or schedule baseline while maintaining the other two; periodically brief management on the status of project management activities.

#### **2.2.1.4 Team members**

Jemison and Sitkin bringing up that it is important in valuating targets to find a balance between a strategic and an organizational fit. This balance could be managed by organizing and selecting an acquisition team. While combining different specialists together its vital to understand that they don't have common expertise and their jargon is probably different too. That has a danger that managers will focus their attention to more simple and easy to communicate issue of a strategic fit. The organizational fit issue will have a tendency to ignorance; since it is all consist of qualitative concerns. (Jemison and Sitkin, 1986)



Aiello and Watkins are stating that there is no an acquisition team which can turn a bad deal into good, but it is likely that a bad team will make good acquisition opportunity into a bad deal. The management of a cross-functional team is complicated; there are some suggestions to help it. The usage of core group members, who have worked together in a past, will bring emotional resilience and will stop the team from going through all social formation stages. Another important issue is that the team has to have a possibility to work physically close together and to have an intensive communication. (Aiello and Watkins, 2000)

Assembling the acquisition team could happen through both internal and external sources. Acquisition specialists must address all elements of a business as members of the team. Just as a company needs marketing, technology, and operations people to run it effectively, the acquisition team also needs all those views to be involved. Different professionals are going to raise different concerns and issues.

This segmentation of tasks can result in a poor integration of analyses and disproportionate amounts of time spent on an analysis of the strategic fit rather than the organizational fit. The segmentation of analytical tasks, could also increase an influence of external specialists on acquirer's strategic direction. The typical result of segmentation tasks could be a large availability of data and techniques to perform a strategic analysis in a limited time. Based on all that, there is a view that the segmentation of tasks is an important factor for the acquisition success.

The managerial press suggests that characteristics of members are also important. While selecting team members, it is better to choose more diplomatic than political, more open-minded than narrowly focused, and more consensus than domination orientated people. It is also good to take into account the motivation of members. Also Jemison and Sitkin write that the commitment of participants can act as a stimulating force. (Jemison and Sitkin, 1986)

In order to help to implement the project a functional sub team could be created. Each sub team suppose to handle a specific mission and to be coordinated by the core team. Sub teams are usually combined from internal specialists which are involved only part time in the project in addition to their normal function. In case there is a lack of a specialty, it could be filled with an external specialist. (Meckl, 2004)

#### **2.2.1.5 Costs of the project**

Triantis writes that the senior management with a help of the business development department should estimate a total project cost before engaging in an acquisition. The estimate is difficult to do, since there are no information at the start of the project what resources would be necessary for the project. The cost of the project execution is big and that is why, it is better for a senior management to be aware of it before involvement into project. The cost associated with doing a project in a range between 5 and 12 percent of a total project cost, which included also the price paid for a target. Some acquirers are making budgets to support their estimate. (Triantis, 1999)

The cost could be divided to cost of internal human resources involved in the project, in terms of salaries and wages, and travel expenses. It is important to estimate the engagement of external companies and their fees. Also physical facilities and an equipment used for duration of the process has it cost. In some cases, an acquisition requires a termination of existing contracts, which would increase expenses. Since an acquisition is a long term investment, the capital expenditures could change a total investment cost. Also every project could have unforeseen requirements and expenses that should have some reserve in the budget. (Triantis, 1999)

### **2.2.2 The Usage of Outsiders**

For many companies an acquisition is a special event and they don't have all in-house experience and knowledge to complete it. That's why many companies hire professional from external companies. In this study, external companies which are used to help acquirer will be named as outsiders.

International acquisition, especially acquisition as a first country entry mode, will require understanding of local environment and regulations. Triantis has a view that acquirers should use local agents and advisor. Negotiations, due diligence and deal structure of acquisition require expertise that are too much too specialized to exist within company. For that reason it necessary to engage external experts. (Triantis, 1999) Another reason for outsourcing parts of acquisition process is that outside advisors are more efficient, since they have economies of specialization and economies of search. Also, outsiders can maintain acquirer's anonymity.

There are organizations and different kind is of banks which can help in different steps of pre-acquisition process, especially in searching for targets and making due diligence. Usually these outsiders are investment banks, business brokers accounting and consulting companies. Also other banks and attorneys are often involved in acquisition deals. However, the problem is that provided by outsiders potential target are also already aware by market and acquirers competitors. (Pearson 1983, Pento 1990)

The choice of advisor will usually depend on different factors, like e.g. size, reputation, expertise in industry or region, personal relationship. Hubbard thinks that there are two issues which should be decided before selecting advisors. First, understanding which services is important to ensure that this concrete acquisition will succeed (e.g. legal, due diligence, corporate finance, communication and other advises). These services could vary from deal to deal. Second issue is decision on leader of acquisition team and person responsible for an outsider. (Hubbard, 2001)



The reputation of advisor is an important factor. The first-tier investment banks bring superior bargaining expertise to acquisition negotiations. Some authors claim that total wealth created in an acquisition is positively related to the reputation of bidder and target advisors. Especially, bidder advisor reputation is positively related to the probability of the bid success, and that bidders with better advisors are more likely to withdraw from potentially value-destroying acquisitions. However, an acquirer does not perform better if it employs a first-tier investment bank. (Bowers and Miller, 1990)

Fee systems are changing from every deal. However most of the deals are calculated as a percent payable from closing price or some minimum lump sum, if deal is not implemented. Percentage fee from the deal is motivating advisor to make acquirer overpay for the target. The best way to ensure that advisor is working for acquirer's best interest and not for own fee generation, is to build long-term and personal relations with him. (Hubbard, 2001) Meckl claim that in most cases, the decision of whether and which external consultants should be assigned is coming from project leader and steering committee. (Meckl, 2004)

There are some risks of using outsiders. Triantis writes that when external advisors are taking over process, they have little knowledge of acquirers strategy, needs and motives. The result is to short deadlines for due diligence and negotiations and a little attention paid to implementation issues, which do not effect closing the deal. After closing the deal external adviser are left managers with monumental implementation task. Triantis advices that it's better to check who is working from investment bank, director-level or junior member. The important thing is not to keep it's involvement to absolute minimum, but to get most benefits from outsiders engagement. (Triantis, 1999)

There are many types of outsiders. Mediator can be used, i.e. to tell is there agreement area, made attempt to joint analysis. The use of mediator is not so common. Some studies show that mediator bring positive outcome for both parties. There are also other

consultants, which specialize in coaching project team through the project assessment, negotiation and implementation. (Triantis, 1999)

### **2.3 Combination of skills**

Like has been mentioned above, by skills this study means some special expertise and professionalism. The acquisition team is the cross-functional unit, which should combine all needed skills to complete an acquisition. The technical complexity of an acquisition analysis and an evaluation provides that, duties and responsibilities are usually subdivided to a number of specialists. (Jemison and Sitkin, 1986) Wisely utilized complementary skills allow an acquisition team to create a broader image of the target and its surrounding environment. It is possible that a member of the acquisition team could have several required skills simultaneously.

Dionne writes that an acquisition is an art of combining skills and a sensitivity, an insight and an instinct. An acquisition team is often filled with following skills: legal; corporate and divisional planning and finance; if relevant, than real state and technology; human resource; and a person who will manage or be responsible for the future business. (Dionne, 1988) Triantis describes that acquisition team members are drawn from different functional areas including finance, operations, legal, technical support, marketing, corporate planning and strategy, human resource, and public relations. (Triantis, 1999)

This part will justify the importance of each skill in the acquisition process and identify phases where each skill is required. It is logical to start building a theoretic frame for the sub question concerning the stress of skills: "What skills are required for international acquisition?" The preamble of needed skills that has been brought by the literature are: Accounting, Finance, Law, Human Resource, Marketing and Strategy, Risk management, Acquisition expertise, Target market expertise, Target's operational expertise. In this part, the study will describe each of them in more details. Through the target's country expertise, the study will bring up the international perspective and create theoretical base for the sub question: "What problems and difficulties international perspective bring in management and coordination of acquisitions?"



Unfortunately, there is a lack of scientific literature concerning the necessity of different skills. The study did not find any scientific theory concerning the prerequisites of different skills in phases of the acquisition process. That's why in that part, a lot of managerial press will be highlighted.

### **2.3.1 Accounting skill**

Gorman writes that accounting expertise should be included at the acquisition team, especially during the due diligence. Accountants will make inquiries in sensitive situations and bring understanding of an investor's point of view. The main aim is to identify potential, big problems and to obtain relevant information. These problems can even prevent a deal, e.g. lawsuits, tax exposures, labour-unit-management relations, etc. According to Gorman, another mission of accountants is to check reasonableness of made forecasts, identify a fair value, and to help in structuring the transaction. There are a lot of different ways and alternatives to present the existing financial situation of a company. That's why it is important to have accounting skill in the acquisition team, to understand those differences and get comparable numbers of the target. The task of accounting managers is not only to check existing documents, but also to meet with auditors to identify items which auditors considered but not included for some reasons in targets financial statements and other documentation. During acquisitions, there are specific reporting requirements, which could be handled by accountants. (Gorman, 1988)

Crisafio et al. do not limit accountant's mission only to a due diligence, like Gorman did. They are sure that accountants should be involved in almost every phase of the pre-acquisition: negotiations, writing a purchase agreement, a due diligence and in facilitating an arbitration process if needed. Usually accountants have a reasonable advice for the purchase price. (Crisafio et al, 1959)

Gough brings up the main steps which accountants have to take while approaching an acquisition: Obtaining an acquisition data. Obtaining a targets financial data. Identifying relevant generally accepted accounting principles. Also accountants had to estimate a goodwill and to plan its future amortisation. Other task for considerations are: a targets' closing schedule, a financial disclosure, annual report impacts, and significant differences in accounting policies. As a member of the acquisition team, sometimes an accountant has to form and lead an accounting acquisition sub-team. Often accountants have to designate their own key contact at the target. (Gough, 1985)

### **2.3.2 Finance skill**

A lot of literature emphasises that the financial analysis is crucial and the most important part of the due diligence. Also some literature suggesting that financial view should be brought up in the early strategy phase. In the managerial press, there are also a lot of articles which are putting stress on the financial view and keep that a financial skill is the most vital of an acquisition team. Aiello and Watkins indicate those financial acquirers are more successful than corporate acquires. The reason for that is that a financial skill allows thinking from the investor perspective, not as a manager. Another reason is that a financial thinking is neglecting synergies and benefits which would come from integration. (Aiello and Watkins, 2000) The most critical part, where financial skills should be present are a due diligence, a financing acquisition and a structuring of the deal.

Hawawini writes that finance experience could provide the value of target as a business going concern. The level of sophistication of the financial evaluation undertaken in mergers and acquisitions has been increased from its origins in international capital budgeting. Companies are becoming more sophisticated in their choice of financial evaluation methods, moving away from accounting-based methods to discounted cash-

flow approaches. (Hawawini, 1991) Pereiro agrees with Hawawini, but add that there are risks of using too complex financial models that will make difficult to truck the important value drivers and to understand critical parts of model. He also states that there is nothing wrong in using simple models. (Pereiro, 2002)

### **2.3.3 Law expertise**

There is not much literature describing lawyers work in acquisition process. However, deal making without lawyers are almost impossible. The authorities often require a lot of document to control an acquisition process and to avoid an inside trading. All documents should go through lawyers, starting from letter of intent. (Dowling and Kiel, 1981)

Lawyers are needed for making various pre-acquisition agreements, like confidentiality and standstill agreements, and the letters of intent. Confidentiality agreements are also known as a non-disclosure agreement, are mechanisms that allow an acquirer to access needed information and in same time protecting interests of the target in that information. Generally they are short and relatively simple documents, which recognize a general confidentiality undertaking. The important issues are what a scope of confidentiality information is and what restrictions are used for it. Standstill agreements are usually used when target is a publicly traded company, which trying to avoid a takeover or any other usage of internal information. The letter of intent, which is also called a term sheet, a memorandum of understanding, a current status letter or a proposal letter is usually used for memorialize the general understanding regarding price, structure, key terms and etc. It is also supporting financial applications, act as a moral commitment to the deal and tend to tie up target from selling to other bidders. (Wangard, 1998) The share purchase agreement or the business purchase agreement is an agreement for the sale and purchase of a company's shares (or assets). Target's



owners could be analysed from the shareholders agreement, which defines their privileges, a protection and obligations.

In the international acquisition, performing a due diligence of a potential target requires an evaluation of the legal formalities and obligations that must be completed by the company. This evaluation usually includes a review of different company's documents relating to its incorporation, registration with the appropriate authorities and activities carried out by it. Also including a review of compliance by the company with its obligations to third parties and government bodies to determine its legal status and possible contingent liabilities. The review requires not only a critical view of the situations that may give rise to a dispute, but also in-depth knowledge, expertise and experience in each of the applicable areas of law including corporate and commercial, tax, importing and exporting, environmental, industrial property and labour law. (Del Rio, 2001)

The compliance with legal law should be analysed during due diligence. The main issues are environmental matters, and licenses and permits. Each business require permits and licenses from governmental authorities, the main issues is also to check if current business is not restricted from a foreign ownership or change in an ownership. Also in case of the management change in a target, new management could have to apply for a permit to operate. Also issues related to tax, product and employees liabilities should be carefully examined. (BenDaniel and Rosenbloom, 1990)

#### **2.3.4 Marketing and strategy skills**

Reid at his article supports that marketing related motives are moving to the fore in mergers and acquisitions. That happen on the cause that other motives are enable to generate sustainable economics revenue for shareholders. (Reid, 2004) The marketing man can help to formulate both a corporate and acquisition strategy as an expert who

trained to observe outside environment and screen markets and countries potentials. (Nicholls, 1979)

An acquisition requires creating of the joint marketing strategy before closing the deal. Management and marketing strategies should be born throughout a negotiation process, to avoid difference in opinions and conflict between parties. These strategies should be based on competitive issues that will make a long-range difference. (Insurance Advocate, 1996)

Future performance of the target can be gauged from an understanding of acquisition target's marketing prospects. Based on those prospects an acquirer can implement a future cash flow model, which is required for financial analysis. However, there are some acquisitions which don't need marketing prospects, e.g. vertical backward acquisition. Nichols and Broadbent are suggested based on their study that there should be formal marketing inputs for most acquisitions. Especially a marketing skill can reduce risks in area where an acquirer has less experience. The marketing expertise can be helpful in defining a strategy, a selection of markets, evaluating synergies and checking competences of the target's marketing department. (Nicholls and Broadbent, 1979)

The need of marketing due diligence comes from acquirer's marketing goals. The marketing factors dominate motives for acquisitions. One of the most common reasons is to increase a market share. Other important marketing goals could be: achieving a better distribution, acquiring a product with a strong brand or with a strong growth potential, an access to desirable markets or to some segments at the market, to obtain a strong customer base. Hise and other authors emphasize that during due diligence phase a marketing manager should evaluate following issues: brands, a product development, marketing synergies, a promotion, a distribution, a pricing, a market position, a personnel and a product life cycle. (Hise 1991)

*"The most important assets are brands. Buildings age and become dilapidated. Machines wear out. Cars rust. People die. But what lives on are the brands"* (Hector Laing, the CEO of United Biscuits at Mitchell, 1989) Some authors are writing about a brand equity and have some models to calculate it. It is important to remember that these calculations are partly based on the qualitative data and that's why they aren't accurate. However, these calculations can give good guidelines for understanding value of a brand. Brands have inherent characteristics that could affect on its value, like cyclical and seasonal stability, product additional elements, level of know-how, distribution area, growth potential, etc. (Hise 1991)

It is not easy to evaluate product development ability of a target. One of the first factor, how acquirer could evaluate performance of product development department is a failure rate of a new products. Usually, the 40 percent failure rate is a maximum, but there are differences between industries and product types. Another way is to compare with competitors the targets budget share spent on R&D. The R&D spending could be measured in ratio money per employee or as a percentage of sales or income. Also a balance in the product portfolio should be checked, that not everything have been putted in a risky products. (Hise 1991)

It is important to evaluate possible synergies and an ability to realize them. Such synergies could come in different areas. At first an acquirer need to analysis duplication of products, brand positions, warehouses and distribution, customer services and programs, advertisement and sales promotion efforts, marketing planning, organizing and staffing, direct sales force and in terms of merchants. The main idea is to find potential benefits of integrating two businesses. (Weber and Dholakia, 2000)

Assessment of promotion and advertisement programs of the target involve evaluation of a long time effect that they have and sometimes regarded as assets. All promotional programs give a good picture of targets' sales department. An advertisement budget as a percentage of sales describing an afford by which sales are created. There are different



models for evaluating the adequacy marketing at the target, in terms of market potential, strength of competition, geographical concentration, and size of accounts. (Hise 1991)

Often acquisitions made to have a bigger market share, but there are few negative things concerning a high market share of the target. At first, high market share companies get closer look of governments. Second, smaller competitors are aiming to compete with a company with higher market share rather than between each other. Third, there are no clear tradeoffs that a bigger market share tends to a higher profitability. Fourth, the relative market share are giving a more updated view. Fifth, if a target has achieved high market share through special assets it could have an unexpected shift in it. (Hise 1991)

Important issue is the ability of a target to achieve different goals by a pricing strategy and a competitiveness of the target's prices. Other acquirers' concerns are usually: a breakeven and a size of the margin, a changing price level. Also a distribution system is often analysed. Starting point for evaluating distribution systems of a target is valuating a physical equipment, like trucks and the material handling. More complicated issues are a possibility to provide emerging shipments, duration of the whole shipment and an inventory turnover figures. (Hise 1991) In a non-related business acquisition, an acquirer usually needs to analyze in which stage of a life cycle is the product of a target. (Mueller, 1972)

### **2.3.5 Human resource skill**

Hubbard claims that only 10% of acquirers conduct a human resource (HR) due diligence. He points out the importance of the human resource due diligence, is not only to analyze a target's top management, but entire personnel. (Hubbard, 2001) Von Krogh et al state that the potential to create value through an acquisition rests on the premise

that a firm can supplement or complement its core skills and resources through combination with other firms. (Von Krogh et al, 1994)

Acquisitions could be regarded as a purchase of the personnel's expertise. Most experts agree that a HR due diligence role provide valuable guidance as the firm to introduce strategic incentive and that a HR function plays a critical role with ensuring the success of these initiatives. In addition a HR management has ability to influence key aspects of an organizational change process. Schuler define the HR role as: a shaper of a change, a consultant of the organization, a strategy formulation and an implementer, a talent manager, an asset manager, and a cost controller. (Schuler, 1994)

Weights in his study had identified that in an acquisition process the HR development professional can act as a changing agent, a training and development professional, and provide competencies and skills to facilitate the integration process. Weight suggests that HR development professionals could be utilized more in earlier stages of acquisitions, since there is a need for understanding the HR relation to a business strategy and also that a human capital issues need more careful attention before an integration phase. The picture below introduces his study. (Weight, 2004)

M&A Phases	HRD (f)	%	BM (f)	%
1. Integration	38	100	17	100
2. Investigative	19	50	14	82
3. Negotiation	11	29	8	47
4. Initial planning	9	24	8	47

**Figure 11. HRD Professionals involvement in the M&A phases (HRD n=38) (BM n=17). Multiple responses were permitted. (BM = business managers). (Weight, 2004)**

In survey of chief executives the purpose was to identify key issues and problems before, during and after M&A. The results were that key issues are: the original purpose of an acquisition is lost or misunderstood, a lack of the HR due diligence before the transaction, no cultural due diligence, little leadership and talent assessment, no people plan for integration, little communication on front-end, target is sociality frozen and

waiting plan from an acquirer. According to the same survey, less than a third part of acquirers makes cultural due diligence before transaction. Only 20% of acquirers put right people in right roles during acquisition and even less acquirers had successfully communicated the vision and goals in a post-acquisition stage. (HayGroup, 1999)

Tomasello stress the integration stage of an acquisition and the importance to involve a HR staff in managing changes, in analysing and in planning. It is responsibility of HR professionals to partner with executives and managers to help individuals, groups and an organization to overcome the continuous internal and external environmental challenge, while effectively managing both employees' behaviours and attitudes that contributes to a resistance of the change. HR leaders should apply their expertise, opportunity and responsibility to ensure that an acquisition is well-conceived, planned and executed with regard to the people involved and affected. HR professionals are needed to check people related issues, such as retaining talents, transferring knowledge and integrating cultures, maintaining commitment, aligning people-related systems and etc. (Tomasello, 2002)

### **2.3.6 Risk management expertise**

Rick managers are playing an important role in the rigorous pre-acquisition due diligence phase. They are in the ideal position, since they routinely deal with many aspects of the company operations, like insurance, loss control programs, legal, tax and accounting issues, regulatory compliance and etc. They can reduce the attractiveness of the target and through that affect to the purchase price. (Hollyday, 1995) The work of risk managers has direct impact on the financial analysis. The degree of risk has a straight effect on the cost of capital and the level of expected returns. The probability weights of different scenarios have also a big effect on the decision outcome.



Often risk managers work reminds a work of an archaeologist, since it involve a lot of analyzing and getting historical data. That's why, a risk management professional is an important member of the due diligence team. They are frequently the only professionals who could study the breadth of coverage, hidden risks, and the solvency of the targets insurance carriers. Another way to handle these issues is to buy post-acquisition insurance to cover range of liabilities. (Banham, 1993; Risk Management, 1995) Also Braxton stress the role of a risk manager in the due diligence phase. The main mission is to highlight all pros and cons of an acquisition and to identify the most probable risks that can occur in the current transaction. The risk manager's task is not only to monitor the target but also its working environment. (Braxton, 1986) When a transaction is made, a risk manager should be involved in a loss prevention program. (Betterleys and Gandling, 1979)

Gonzales referring to the Canadian Risk Management Conference in Montreal says that it is important that a risk manager is aware why the acquirer is buying a target, and what motives are. A risk manager is responsible for analyzing risks of the target and developing plans to ensure that these risks will not occur. A risk manager needs to assess the risk in terms of severity, probability, timing and the changing probability over time and provide the correct mitigation plan. The risk manager's report should also include post-acquisition phase insurance costs and items requiring additional funding, and confirm readiness of the coverage by the transactional date. (Gonzalez, 2005)

### **2.3.7 Target's operational expertise**

Many authors suggesting that an operating manager, especially the manager that would be responsible for the target, should be involved in acquisition process from a very beginning. The key staff people are actual consumers of an acquisition and their view is valuable in an every phase of the acquisition.

Jemison and Sitkin have opinion that an operating manager can provide more focus on issues related to an organizational fit and at the same time to balance financial and operational considerations. Also an operating manager should be a part of the negotiating team. This creates an operational realism and help to valuate a target as an ongoing business of the acquirer and not as separate entity. (Jemison and Sitkin, 1986)

The major risk is that operational managers have a tendency of treating acquisitions as a direct “march up to the hill” process; thinking more about needs and wants than expenses of the acquisition. (Aiello and Watkins, 2000)

### **2.3.8 Target market expertise**

International perspective brings extra difficulties in a management and a coordination of acquisitions. That can be noticed in every phase of the pre-acquisition process. Even small activity in the unfamiliar environment could meat a lot of barriers and obstacles. For overcoming those, an acquirer needs to spend more time and resources.

In international acquisition, especially during pre-acquisition process, it is important to know and to understand differences in political, economic, legal and cultural issues. Multinationals has advantage in that, since they likely have connections and a network in the target’s market, and an experience at operating in the international environment. (Schweiger et al, 1993)

Wangard writes that acquirers should be especially careful while dealing with cross-border acquisitions, since not all agreements working the same way in different countries. It is more confident to include choice of law, to put clear all clauses in agreement documents. (Wangard, 1998)

Triantis stress that the biggest difference comes in acquisitions which are made in developing countries. It is Important to know the way of doing business and to have an ability to communicate with project participants. Also a negotiation phase is more interesting and complex, since it involves more considerations, which are not present in domestic acquisitions. The governance structure is crucial for the project success, and the ability to enforce a legal agreement and the ability to convert profits to hard currencies. In developing countries could be a problem of finding a qualified management and a skilled labour. The cost of expatriate assignments is high. Language could be a barrier, however most business transacted on English. A cross-border acquisition is more time consuming, especially during a negotiation phase. To get local expertise, an acquirer should hire local agents and advisors. (Triantis, 1999)

### **2.3.9 Acquisition expertise**

Triantis stress the one of reasons for the failure, which don't receive enough attention in the literature, is a lack of the experience of the project team and other participants of the project. Acquisitions demand an expertise in doing every aspect correctly and efficiently, for the reason of impossibility to correct already done actions. The common mistakes are: a limited mastery of planning and preparing negotiations; distilling clear positions on issues and an understanding of the process and issues on the part of all involved sub teams. That results in prolonged negotiations, poor agreements, overpayment and eventual failure. Inexperience makes impossible to assess what should be done in every juncture and how to pick up appropriate advisors. (Triantis, 1999)

The survey of 200 chief executives has represented the most important factors for a success in acquisitions. The sixth important factor was prior experience in making acquisitions. Also factors that contribute to success have been studied and an ability to integrate target was a third factor. (BAH, 1985) An experience creates an



professionalism in a certain area, but it has a danger of overestimating own abilities, that usually results in so called “illusion of control”.

### 2.3.10 Summary matrix

This part is summarizing all clarifications of importance of various skills during pre-acquisition process, which have been mentioned above. As a result, this study showing the matrix of skills and the acquisition process based on the related literature.

<b>Skills \ Phases</b>	<b>Strategic p.</b>	<b>Searching p.</b>	<b>Analysing p.</b>	<b>Due diligence p.</b>	<b>Negotiation p.</b>	<b>Closing p.</b>
<b>Accounting</b>				X	x	X
<b>Finance</b>	X			X		X
<b>Law</b>				X		X
<b>Marketing</b>	X			X		
<b>HR</b>	X			X		x
<b>Risk Management</b>				X		x
<b>Environmental</b>				X		
<b>Operation</b>	X			X	X	
<b>Target market</b>				X		x
<b>Acquisition</b>	X	X	X	X	X	X

Figure 12. The table of matrix skills with phases of the pre-acquisition process.

## 2.4 Framework

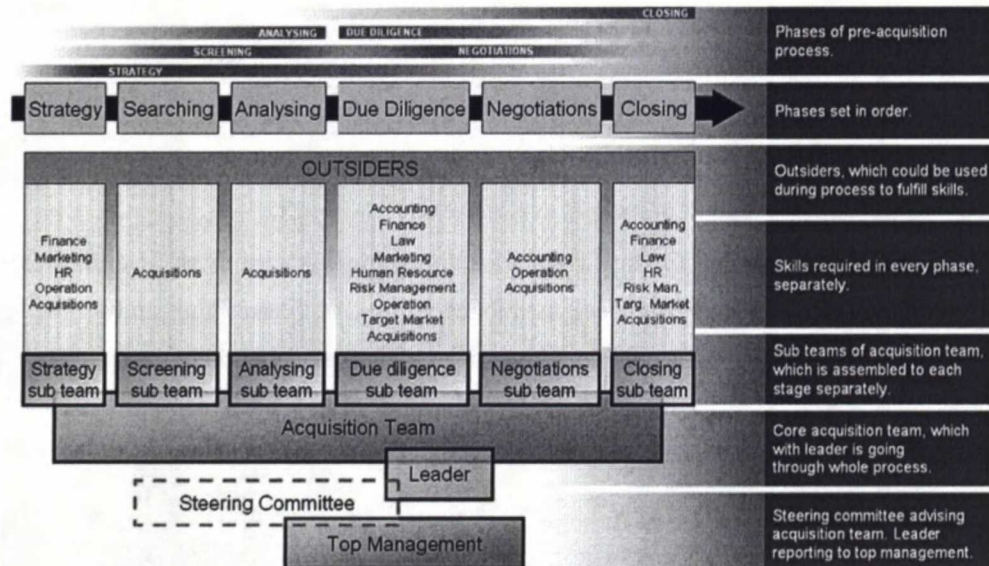


Figure 13. The framework of the thesis.

The framework represented above is based on literature review made in the chapter 2. The top of the framework represents different parts of the process. The gradient colour represents the intensiveness of an each phase on the time scale. Below those phases are organized and putted in the order.

The acquisition team has sub teams, which are responding to each phase of an acquisition. A phase requires special skills, which should be included in a sub team. These skills could be filled by internal human resources, or in case there is no appropriate candidate it could also be took from an external advisor or other outsider.

The acquisition team has a leader who acts as contacting point for a steering committee and for a top management. The mission of the steering committee is to advise and to mentor the acquisition team. The top management is following steps of the process by reports of the acquisition team. Also some decisions are brought from an acquisition team's level to the top management.

### **3 Methodology**

This chapter will describe how empirical part of the study has been created. It will describe and justify the way a data has been gathered and the way it has been analyzed. The contribution of the empirical part of the study is to illustrate how well the framework built previously corresponds to practical behaviour in acquisitions made by Finnish based companies. It is natural that the methodology of a study is based on the research question that is addressed in the introduction chapter.

Every study has own specifics and characteristics and that shapes the way of approach. This study is not built on hypotheses, rather on a framework that need to be developed further and to be verified. The study is qualitative, what means that there are no numerical data available that would clarify the research question. The objective is to understand and to explain certain objects and events. However, due to limited scope of the study, this explanation will not be representative for other objects.

The choice of the method to collect information has been based on the presupposition made by various authors. Larimo has been studied the FDI decision behaviour of Finnish companies and he suggests that an acquisition process can be researched by a survey (questionnaire or interview), by a study of organizational records or by an observation. The last two options are often impossible to complete due to various reasons. Observations of an international acquisition process could take too long period of time, which is not appropriate for a masters thesis. The study of records could be impossible due to a seldom documentation of an acquisition process. Another reason, is that observations and a study of records tend to be on a corporate restriction of confidentiality. Leading from above only survey method is appropriate to collect required data for this study. (Larimo, 1987)

The specialist of scientific text writing, Yin identifies five research ways that could be used for all kinds of an empirical research, these ways are an experiment, a quantitative



survey, an archival analysis, a history and case study. Each way has their own strength in particular situations, which could be identified according to three different conditions: the type of a research question posed, the extent of control an investigator has over actual behavioural events and the degree of focus on up-to-date opposing to historical events. Experiment, history and case studies stress “how and why” questions. Quantitative survey and archival analyses are investigating facts, like “who, what, where, how many and how much”. (Yin, 2003)

The research questions indicate that this study is explanatory, historical and qualitative in a nature. According to Yin, explanatory studies are likely to lead to a case study research way, because the question deals with operational links, needs to be traced over time. Since the study involves a qualitative aspect of how a certain historical phenomenon is transformed and manifested in a contemporary phenomenon, historical study is more feasible than an archival or statistical analysis. (Yin, 2003)

The term “case study” is used differently according both authors. In contradiction to Larimo’s “single object study”, Yin defines case study as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, which could be studied on several companies. The source of information in this study is interviews. As Yin put it, interviews are “guided conversations” rather than structured queries. The questions are of an open-ended nature, in which the respondents are asked about the facts of the matter as well as their opinions about events. Further, the respondents are asked to propose their own insights into the subject. (Yin 2003)

Based on viewpoints represented above, the study has been chosen to make survey based on interviews or a questionnaire in case interview will not be possible. There are limitations to an intensive research approach of the study. That could be difficult to generalize findings from a few cases to other objects. That makes statistical sampling complicated due to the complexity of the study theme and diversity of the studied objects. Since similar studies are not done in the related topic at the current population,

the goal is not to compare theory to practice, but to create united view which would be build on synthesis of theoretical framework and practical views.

### **3.1 Data collection**

At first, the target population involved in investigation should be specified. Sampling is central issue in any research design. Sampling determines, e.g. how the sample should be taken, which processes are followed, what kind of sample should be taken, how large sample should be and what can be done to control non-response errors. Sampling starts from definition of the target population, than determination of the sample frame, selecting sampling techniques, determine sample size and executing the sampling process and validating the sample. (Malholtra and Birks, 2003)

The aim of the thesis is to study Finnish based, international companies, which has been done international acquisitions during last years. According to Amadeus database (14.06.2006), there are 77 companies that has sales over 1 000 million USD and (167 companies that have over 1000 employees) 87 companies that have over 2000 employees. The amount of international acquisition will reduce the whole population to around 50 companies. The sample frame has been based on companies' relative size and amount of acquisitions made during last years. The measurements of size were amount of sales and personnel during last financial year. The source of information was primary the internet data base of Amadeus (amadeus.bvdep.com) and after, some acquisition related aspects were checked in internet data base of weekly published magazine "Talouselämä" (www.talouselama.fi).

The study temped to pick up sample companies from different industries and with dissimilar background to create a broader image. By background, the study has been recognized following issues: ownership, age, nature of business, government dependence, client dependence and etc. However these issues have not been brought up

in a study, they only used in the sampling method to enrich the sample. Originally, a sample size has been decided to be roughly five companies, but since study had possibility and resources, it has implemented interviews of nine companies. That enhances validity of gathered result.

In current study sampling includes both companies and interviewee's positions. After a company has been identified, the researcher contacted the company by telephone and with assistance of a corporate call centre, or in some case, of a top management secretary identified the best qualified person to be interviewed. After that the person was contacted by email, in which it was asked for involvement to the study with included a short description of the study. After few days, the individual have been contacted by telephone. After explaining the aim of the study the researcher asked whether person has an appropriate knowledge on the subject and available time for the interview. Companies were contacted on the corporate level or with the group head quarter. In case there were not separate acquisition department, the managers were interviewed from business development department (Exception is Oy Karl Fazer Ab, where the Financial Director of Leipomo Division has been interviewed).

Data was collected during two month, from 27 February to 24 of April of 2006. A total amount of 15 companies have been contacted, from which only 9 have been interviewed. The studied companies were: Elcoteq Se, Oy Karl Fazer Ab, Fortum Oyj, Kone Oyj, M-Real Oyj, Rautaruukki Oyj, SanomaWSOY Oyj, Stora Enso Oyj, Tietoenator Oyj. The companies which have been contacted, but not studied: Kemira Oyj, Kesko Oyj, Metso Oyj, Nokia Oyj, UPM-Kymmene Oyj, Wärtsilä Oyj Abp. Received rejections of involvement to the study were argued by a confidentiality of this kind of information and a lack of time.



### **3.2 Interview and Questionnaire**

The interview was the only used way to collect data. Interviews have being hold in the office facilities of an interviewed company, usually interviewee have being arranged negotiation room for it. The planned and average duration of an interview have being approximately one hour, however due to humanity reasons duration varied from 40 to 120 minutes.

Questionnaire have being develop for two reasons, to being sent in case a manager will not have appropriate time to meet and for being as a guiding line during interview process. The first aim of questionnaire have not being used, no questionnaires have being sent to be filled. Only in several cases the questionnaire has been sent before interview, due to interviewee request. The questionnaire has being pre-tested on few HSE students for an assessment of potential respondent's attitude toward study and with a purpose to identify possible additions and deletions, and also to test clarity and readability of the questionnaire. The questionnaire could be found in Appendix 1.

Interviews have been based on the questionnaire, since it provided a steady background for the interviewer, helped to remember all relevant things that should be asked and to proceed logically. The questionnaires used in the interviews were built up to reflect the different insights found in the theoretical part. Since questionnaire made very extensive, approximately only 60% of it were used in interviews.

The first part of interview is focusing on the general information about an acquirer's background, a business nature, a growth and internalization attempts and typical targets. Part of that information has been gathered before an interview from public sources (e.g. annual reports) for purpose to spend time more efficiently and to not bother interviewee with elementary questions. The main stress point were: a type of made acquisitions, a previous relation to a target, a usage of manuals and checklists, a successfulness of made acquisitions, a source of intent, an implementation budget, an implementation

organ. Also motives, alternative options and previous operations in target country have been brought up to discussion. .

The second part is focusing on how and with what resources acquisitions are made. This part could be divided into three sub-part, first of all internal human resources of an acquirer, than outsiders and finally the structure of teams and sub-teams during an acquisition process. The last one was usually described at due diligence phase, since it is the biggest and the most human resource consuming phase. Main stress points are: people and positions involved into the process, a leader, a selection of people, a shape of the acquisition team, a delegation of the decision power, a moment of creating the team, the usage of outsiders, outsider tasks, a trust to outsiders, a pay systems and a coordination of outsiders.

The third part is concentrating on the acquisition process and skills required in it. The key phases that were discussed in terms of skills, are a due diligence and negotiations. Main stress points were: the most relevant skills to the success, a duration of every phase, the involvement of a top management into the process, goals of a due diligence, a lack of information, negotiation tactics, a negotiation language, negotiation players, a previous suggested price, a closing price, an integration plan.

### **3.3 Data analysis**

After information have being gathered it have being carefully documented and than analyzed. The methods used to analyze information were simple and traditional: logics, common sense and intelligence. This study is not aiming to make statistical generalization; however differences in various aspects could use generalization method to create holistic view on a current situation. The secondary goal is to understand a certain action or to give a theoretically meaningful interpretation of a certain phenomenon.

After information has been filtered and analyzed, it through created framework has been compared with existing literature to find similarities and identify differences. Theoretical models and assumption have being tested and compared. At the end, the synthesis of theoretical and practical information sources have being presented.

### **3.4 Reliability and validity**

Trustworthiness of a study can be estimated using reliability and validity. According to Yin the four tests are relevant to a case study research: construct validity, internal validity, external validity and reliability. Construct validity refers to establishing correct operational measures for the concepts being studied. The method of research have been chosen based on suggestions of other authors and the interview is most appropriate method to gather answers for questions, which were addressed by the study. (Yin 1994)

The internal validity of the data refers to how reliable and correct is information given by the firms, which form the studied sample. The internal validity of a study could be questioned based on three reasons: memory failure, distortion and post rationalization. All these reasons can be minimized by growing the studied sample. The sample of nine companies is large enough and the growing of it will not change gathered results. To minimize the risk of memory failure, interviews were focused on acquisitions that took place during last years. Also the eye-to-eye contact between researcher and the respondent might diminish gap between stated actions and real managerial behaviour. (Yin 1994)

One of the problems in a case study is to avoid “subjective” judgments based on collected data. For avoiding that framework have been created and used as a base for the questionnaire and through that to interviews. Also the answers of managers were doubt in terms of personal ego and willingness of highlighting only positive facts. (Yin 1994)



Reliability measures how well the measurement reproduces consistent results, if the process of measurement is repeated. The study assumed to have strong reliability and it demonstrates that the operations of the study can be repeated with the similar results. However, the study didn't have a possibility to make a test-re-test reliability. (Yin 1994)

The external validity states how the results can be generalized on the rest of the population. The study is not aiming to statistical or analytical generalizations for all population. However, the result could provide a trend or a suggestion on the way acquisitions are managed in the large Finnish based companies. Due to limitations of this thesis and variety of the subject, there is no possibility to generalize a particular set of results to a broader theory. Some generalizations, which would be made, will be ensured through replication logic, which was already mentioned as a method to be used in this research. The amount of made interviewees are improving external validity and it provides insight into Finnish way of implementing acquisitions. (Yin 1994)

## **4 Analysis**

In this chapter the information gathered from interviews and public sources will be presented. At first, the sample companies would be presented with background information and basic facts. After that, the chapter will be divided according to sub questions presented in the introduction chapter. At the end of each part the synthesis of empirical study and theoretical part will be generated. First part describes the process specification. The next comes the organizational architecture and the usage of outsiders. After that, comes the stress of skills. The last part highlights the international perspective.

For confident reasons each companies respond will not be shown, instead results will be summarized and generalized. This chapter has also things that are indirectly relate to the study, since that will make a better picture on the studied sample and the nature of Finnish based companies.

The questionnaire is very extensive and the interviewer has chosen the relevant question from the list by ad hoc method. Even interviewees have been representing a concrete company; the answers could have a personal tint. In addition, for most managers questions that considered natural and routine processes (e.g. closing the deal) seemed useless and worthless, instead they was willing to speak about phases that brought problems and challenges for them (e.g. due diligence).

## **4.1 Acquirer's background**

### **4.1.1 Elcoteq Se**

Elcoteq Network Corporation is an electronics manufacturing service company in the communications technology field. Elcoteq is a global provider of end-to-end solutions consisting of design, new product introductions, manufacturing, supply chain management and after-sales services for the whole lifecycle of its customers' products. The company operates on three continents, in eleven countries and is headquartered in Espoo, Finland. For the financial year 2005, the company reported revenues of 4 169 million euro and the net income of 41.3 million euro. Elcoteq is publicly traded company, the biggest owners are Piippo Antti (FI) – 44,42 %, Vanhanen Jorma (FI) – 21,08 % and Sjöman Henry (FI) – 21,07 %.

The origins of Elcoteq can be traced back to 1984, when Lohja Corporation established a new unit called Lohja Microelectronics. In 1990 Lohja Corporation de-merged its business operations and incorporated them as separate companies. Lohja merged with Wärtsilä to create Metra, a company that operated under that name for only a decade, and Lohja Microelectronics became a part of the new company. Lohja Microelectronics was then renamed Elcoteq, and in 1991 Elcoteq became an independent company in a management-buy-out carried out by its three top managers. In 1997, the company was listed on the Helsinki stock exchange. Over the next two years the company looked to establish an international network and by 1999 the company's network of plants covered more than ten countries in three key regions of economic growth: Europe, America and Asia. In 2002, the company made two notable acquisitions. Elcoteq acquired the majority of the Finnish mobile phone company, Benefon, and its research and development operations. At the end of 2002, Elcoteq acquired 70% ownership of two Chinese joint-venture electronics manufacturing services companies Shenzhen GKI Electronics Company Limited and Beijing GKI Electronics Co, Ltd. Elcoteq also acquired research and development capacity in Finland to enable the set-up of the



Elcoteq design center. In the same year Elcoteq acquired Marconi's electronics manufacturing in Offenburg. In 2003 Elcoteq signed an agreement with Cellon, a large independent mobile phone design house, on design collaboration, and at the same time became a minority shareholder in this company and Cellon's preferred electronics manufacturing services provider. In the same year Elcoteq and ISIS Surface Mounting announced an agreement whereby Elcoteq had acquired 20 percent of ISIS shares. Elcoteq also acquired NPRC, a USA based new product introduction services company. In 2004, the company announced divestiture of its industrial electronics business activities. Within the same year Elcoteq announced that it had decided to move production at the Espoo plant to the company's plant in Tallinn, Estonia. In 2004, The Elcoteq Network Corporation and the Swiss manufacturer of advanced telecommunications solutions Schmid Telecom signed a co-operation agreement. In April 2005, Elcoteq inaugurated a plant in Bangalore, India.

Elcoteq Network is an electronics manufacturing services company based in Europe. The company provides terminal products, cellular networks, broadband networks and wireless local area networks. It offers engineering and manufacturing services, supply chain management and after-sales services to international high-tech companies especially in the communications technology fields. The company has two main business segments; terminal products and communications network equipment. The terminal products unit provides global manufacturing services. Its products include mobile phones, personal digital assistance, smart accessories and digital home communication products. The Elcoteq design center offers complete and partial product design, software design, and product verification services. Elcoteq's communications network equipment division serves its customers by providing manufacturing services covering base station and base station controller modules, plug-in units for mobile base stations, tower top amplifiers, base station antennas and broadband access multiplexers. The segment's largest customers are Ericsson and Nokia along with other customers like Allgon, Andrew Corporation, Guangzhou Thinker and LGP. Elcoteq has manufacturing services plants in Finland, Estonia, Russia, Hungary, Germany, Mexico and China, as

well as customer service centres in Sweden, Switzerland, the US, Japan, Korea and Hong Kong.

(Annual Report 2005 – Elcoteq Se; Amadeus; My Bluebook; Talouselämä)

#### **4.1.2 Oy Karl Fazer Ab**

Fazer manufactures, markets and distributes baked goods and confectionery across the Baltic region. It also operates a restaurant company that services private companies and public institutions in the region. It is headquartered in Helsinki, Finland. For the financial year ended December 2005, Fazer generated revenues of 986.3 million euro. It also reported a net income of 38.2 million. Fazer Corporation is totally owned by the Fazer family.

Karl Fazer founded the business in 1891. The original venture was a French-Russian café in Helsinki. Fazer moved into the confectionery manufacturing business in 1895, with the establishment of a chocolate factory. In 1990 Fazer formed a strategic alliance with the Swedish confectionery company Cloetta. This was followed by a period of accelerated expansion. Fazer moved into the Polish market in 1993 and acquired Chymos AB, followed in 1998 by Danish brokers C.K. Chokolade A/S. Fazer expanded its bakery operations into Estonia in 1994. This was followed in December 2001 by the acquisition of a majority stake in Lithuanian bakery company Gardesis. In 2002, it acquired Latvian bakery company Ogres Maizneks and the Druva brand. The group established a merger agreement with Cloetta in 1999 concerning Fazer's confectionery business. As a result, the group's confectionery business was divided into two: Fazer Confectionery and Candyking. In 2002 Fazer Confectionery merged with Cloetta, forming the largest confectionery business in the Nordic region, Cloetta Fazer. In 2005, Fazer acquired further shares in Cloetta Fazer and now holds the equivalent to 24.1% of the shares and 40% of the votes in the company.

The Fazer Group is comprised of three businesses: Fazer Bakeries, Amica Restaurants and Candyking. Fazer Bakeries is a leading producer of baked products in Finland. It makes and markets breads, pastries and cakes through a network of around 20 bakeries across Finland. The bakeries manufacture both nationally branded products and local specialties. Fazer operates its own mill to produce flour for the bakeries. Fazer has a lesser presence in the bakery markets outside Finland. It operates a bakery in Sweden, which specializes in wholegrain bread, and a bakery in Estonia that produces bread and pastries. Fazer also operates in Russia, where it produces baked goods through a partnership with Hlebnij Dom. Fazer Bakeries also owns a majority stake in Gardesio, which operates a bakery and flourmill in Lithuania. Amica Restaurants operates catering services at private companies and public sector institutions, including hospitals, schools and sheltered housing. It delivers food from its service kitchens to other workplaces through the Amica Lunch Messenger Service. The business also offers a party service, organizing events for clients. Amica Restaurants operates in a total of six countries: Finland, Sweden, Denmark, Norway, Estonia and Latvia. Its Swedish activities are operated under the Karamellkungen brand, whilst in every other country the Candyking brand is used. Candyking specializes in Pick & Mix confectionery. It has operations in four countries: Sweden, Finland, Norway and the UK.

(Annual Report 2005 – Oy Karl Fazer Ab; Amadeus; My Bluebook; Talouselämä)

#### **4.1.3 Fortum Oyj**

Fortum is a provider of energy in the Nordic countries and the Baltic Rim. The company provides electricity, heat, steam, and fuels. The company operates in the Europe, the Middle East, Asia and North America. It is headquartered in Espoo, Finland and employs about 12,900 people. The company recorded revenues of 5 918 million euro during the financial year 2005. The operating profit of the company was 1 864 million.



The profit before taxes was 1 776. Fortum is publicly traded company, the biggest owners are State of Finland – 59,26 %.

Fortum was founded in 1998, when two state-run companies, Imatran Voima, a utility business and Neste, an oil, gas and chemicals business merged together. After the merger in 1998, Fortum began to build up its portfolio. In 2000 it acquired Stora Enso's power plants in Sweden and Finland. During the same year a company by the name of Lansivoima also merged with Fortum Corporation. The company started to focus on its interests in the Nordic area in 2001. The company completed the acquisitions of Birka Energi and Elnova during the same period, which enhanced its Nordic interests. In 2003 Fortum and E.ON agreed to swap assets worth E800 million. This transaction strengthened Fortum's position in the Nordic countries and in the Baltic Rim. The company also sold its Fortum Petroleum business and its Norwegian E&P business to ENI International. Through the acquisition of the remaining 50% stake in Birka Energi in 2003, Fortum became the second largest power supplier in the Nordic region. A month later, the company completed the sale of its bitumen business to Nynas Petroleum. In the same year, Fortum increased its stake to 34.1% in Hafslund. In February 2004 Fortum increased its ownership in Russia based Lenenergo. In December the same year Fortum acquired an additional 6% of the shares in Finnish Gasum thus increasing its stake in the company to 31%. In March 2005, the company announced the separation and listing of its oil related business as Neste Oil Corporation on the Helsinki stock exchange. In May the company sold off its 50% stake in North Transgas to OAO Gazprom.

Fortum is an energy company serving the Nordic countries and the Baltic Rim. It offers products and services throughout the energy chain, such as electricity, heat, and steam. The company also operates service stations and extracts natural gas. Fortum uses hydro, wind, nuclear power, coal, natural gas, peat, biomass and oil as energy sources. It had around 1.1 million customers, 120,000 oil customers and 85,000 corporate customers. However, in the year 2005 the company spun off its oil related business to form a new company called Neste Oil Corporation. Fortum is the second largest power producer in

the Nordic region and a provider of petroleum products in the Baltic Rim. Fortum is also a heat producer in the Nordic region. It purchases electricity from other companies and through the Nordic electricity exchange, Nordpool. Fortum also provides energy related engineering, plant operation and maintenance services through its subsidiary, Fortum Service. The company's heat business is engaged in providing thermal services, district heat, process steam, cooling and other related services. Fortum has shares in natural gas companies in Finland, Sweden and Estonia.

(Annual Report 2005 – Fortum Oyj; Amadeus; My Bluebook; Talouselämä)

#### **4.1.4 Kone Oyj**

KONE is a global service and engineering company that specializes in the production and maintenance of elevators and lifts and materials handling. The company is headquartered in Espoo, Finland. For the financial year 2005, the company generated revenues of 3 242 million euro, an increase of 12% on the previous year's figures. This resulted in net income of 109 million, a 34% decrease on financial 2004. KONE is publicly traded company, Antti Herlin owns 20,7 % of shares and 61,9 % of votes.

KONE Corporation dates back to 1910, when Ab Gottfr. Stromberg Oy established the electrical repair shop Osakeyhtio KONE Aktiebolag in Finland. In 1918, the company started its own elevator business. In 1924, Harald Herlin bought the entire stock of KONE from Stromberg. Herlin remained Chairman until 1941. Up until the 1950s, the company concentrated on the domestic market. In 1957, KONE established its first overseas subsidiary, AB KONE Hissar in Sweden. From then on, the company began to expand overseas through a series of acquisitions and by the latter part of the 1960s was known as Finland's first multinational company. KONE was first listed on the Helsinki Stock Exchange in 1967. In 2002, KONE acquired Partek, which became a fully incorporated division of KONE Corporation. The new division became KONE

Materials Handling. During 2002 KONE purchased more than 20 companies with combined net sales of approximately 50 million euro. The most notable acquisitions were France's CEMARI, which specialized in installing elevators in elevatorless buildings, L. Hopmann Maschinenfabrik of Germany, which sold, produced, installed and maintained elevators mainly in the Cologne area; and the Dutch Waldoor, which specialized in the maintenance of automatic building doors. In 2003 KONE announced the sale of its forest operations, namely Partek Forest, to Komatsu of Japan. In 2004, KONE began the preparation for the division of the company into two separate corporations, whose shares would be listed on the Helsinki Exchanges. One of the companies would consist of the business operations of the KONE Elevators & Escalators division, which would continue under the name KONE Corporation. The other company would consist of the business operations of the Kone Cargotec division, whose name would be Kone Cargotec Corporation.

KONE is a global service and engineering company. The company specializes in the production and maintenance of elevators and lifts and materials handling. KONE consists of two business divisions: KONE Elevators & Escalators and Kone Cargotec. The first one sells, manufactures, installs, maintains and modernizes elevators and escalators and services automatic building doors. Kone Cargotec comprises two business areas, Kalmar and Hiab, which provide solutions for container and load handling needs. Kalmar specializes in container, trailer and heavy industrial handling and Hiab in load handling, with sales and service companies in 25 countries. Through their dealer networks, products and services are available in over 100 countries.

(Annual Report 2005 – Kone Oyj; Amadeus; My Bluebook; Talouselämä)



#### **4.1.5 M-Real Oyj**

M-real is a paper and paperboard manufacturer. The company focuses on the production of coated and uncoated fine papers, as well as the production of high quality magazine papers. The company also produces packaging boards for consumer products. M-real is headquartered in Espoo, Finland. For the financial year ended December 2005, M-real reported revenues of 5 241 million euro, a decrease of 5.3 % from the previous financial year. The company reported a pre-tax loss of 114 million euro. Metsäliitto, a Finnish forest owners' cooperative that supplies most of the company's raw materials, owns nearly 40 % of M-real.

M-real's origins can be traced back to 1868, when G.A. Serlachius founded a ground wood factory in Mänttä, Finland. In 1986, Metsä-Serla was formed as a result of the merger between G. A. Serlachius and Metsäliiton Teollisuus. From 1996, Metsä-Serla began to expand through a series of acquisitions of European paper companies. In 1996, it acquired 50% of the German paper manufacturer MD Papier. Other acquisitions included Biberist of Switzerland in 1997; UK Paper in 1999; Modo Paper of Sweden in 2000 and Zanders of Germany in 2001. In 2001, the company changed its name from Metsä-Serla to M-real. In 2005, the new company was listed on the Helsinki Stock Exchange.

M-real operates in five business segments: publishing; commercial printing; home and office; consumer packaging and the Map Merchant Group. M-real's publishing business produces high reproduction quality paper for magazines and catalogs. The premium banner for the publishing business is the Galerie brand of double-coated fine paper. M-real's commercial publishing business produces coated and uncoated fine paper for corporate communications; examples of this being flyers, inserts, annual reports, brochures and leaflets. M-real's home and office business has a strong market presence in Europe with brands such as Datapapers and Logic. M-real's consumer packaging business serves companies in beauty care, healthcare, branded food, consumer electronics and cigarette industries. The Map Merchant Group is owned by M-real and

consists of merchants supplying both M-real and other brand paper to printers, publishing houses and advertising agencies. The Map Merchant Group operates within Europe.

The Pulp Group, comprised of the merged businesses of Oy Metsä-Botnia and Metsä-Rauma, is a joint venture between M-real and UPM-Kymmene. The common ownership ensures that both parent companies have a supply of pulp for their paper mills, while the excess (around 20%) is sold off in the European market place.

(Annual Report 2004 – M-Real Oyj; Amadeus; My Bluebook; Talouselämä)

#### **4.1.6 Rautaruukki Oyj**

Rautaruukki is a provider of solutions for the construction, mechanical engineering, and metal fabrication industries. The company's main products include flat steel products, tubular products, long steel products, reinforcing products, and other metal products. The company is headquartered in Helsinki, Finland. For the financial year ended December 2005, Rautaruukki generated revenues of 3 654 million euro. The company reported a net income of 618 million for 2005. Rautaruukki is publicly traded company, the biggest owners is State of Finland – 40,1 %.

Rautaruukki was established by the Finnish government in 1960. The company's main task was the production of steel required by the Finnish metal industry. The steelworks built in Raahe started the production of raw iron in 1964. Three years later, the company started to produce hot rolled steel plates. In 1968, Otanmäki, a company with ore prospecting and mining operations, merged with Rautaruukki. Production of hot rolled strip products started in Raahe in 1971. The works built in Hämeenlinna to make cold rolled and galvanized sheets started operations in 1972. Rautaruukki acquired its first tube works in 1973. In 1977, the company completed its first foreign acquisition, with

the purchase of Nordisk Simplex's tube works in Norway. A sales company in Norway was also established that year. Two years later, the company acquired the dished end production operations of Matti Eloranta. During the 1980s, the company continued its strategy of expansion through acquisition. Major acquisitions included Toijalan Teräsprofiili, Dalsbruk (a producer of long steel products), Suomen Metalcolor (a producer of coil coated steel), CCB-Gruppen (a Norwegian steel wholesaler), and the German tube works Schmacke Rohr. The company also established sales companies in the UK, Germany, Sweden, and the US. In 1989, the company went public to Helsinki Stock Exchange. The company further enhanced its portfolio of companies with further acquisitions throughout the 1990s. In 1990, Star Tubes (a British wholesaler of tubular products), Gavle Ahlsell (a Swedish manufacturer of profiled sheet), and Wirsbo Stalror (a Swedish tube works) were acquired. During the following year, three Finnish manufacturers of profiled sheet (Verho-Metalli, Makela Metals, and Rannila Steel) were acquired. During the next four years, sales companies were established in Singapore, Poland, Dubai, Latvia, and Lithuania. Carl Froh Rohrenwerk (a German tube works) became wholly-owned by Rautaruukki in 1994. In 1996, Fundia and Keskometalli (a Finnish steel wholesaler) were acquired that year. Two years later, the company's Transtech Taivalkoski works were sold, while a 51% interest in the Finnish steel service company Asva was acquired. In 1999, Keskometalli merged with Asva and Valtameri merged with Rautaruukki. In 2001, the company completed the acquisition of Helens Stål, a Swedish stockholding and service center company that was renamed Asva AB. Two Rannila steel works were opened to manufacture steel roofing from color-coated steel sheets in June 2002. TOO Rannila Kazakhstan, part of Rautaruukki's steel structure division, opened a new works in Alma-Ata, Kazakhstan, and Zao Rannila Taldom opened a new manufacturing works in Yekaterinburg. In 2004, the company acquired the business operations of TP-Teräskeskus from TP-Yhtiöt. Rautaruukki formatted a joint venture with Relicomp, GT-Systems, and the venture capital company Midinvest. The new company was named Sheet Metal Innovations (SMI). Same year, the company sold its engineering technology sales unit and welding wire operations. In Also the new brand name of Ruukki was established.



Rautaruukki is a manufacturer of steel and other products. Its operations are divided into four divisions: metal products, construction solutions, mechanical engineering solutions, and metal fabrication solutions. The metal products division manufactures flat steel products, tubular products, long steel products, reinforcing products, and other metal products. The construction solutions division supplies residential and commercial building and infrastructure construction solutions. Solutions supplied to customers include frame, floor, façade, and roof systems. The mechanical engineering solutions segment serves the marine and offshore, pulp and paper, and lifting and transport equipment industries. The metal fabrication solutions division provides services to the electronics, automotive, household appliance, and light engineering industries. The group operates in the Nordic countries, Germany, Poland and Russia.

(Annual Report 2005 – Rautaruukki Oyj; Amadeus; My Bluebook; Talouselämä)

#### **4.1.7 SanomaWSOY Oyj**

SanomaWSOY is a media group comprised of five divisions operating in a variety of fields of media in over 20 European countries. The company is headquartered in Helsinki, Finland. In the financial year ended December 2005 the company generated revenues of EUR 2 622 million in the 2005 an increase of 5.2%. Net income rose 1.5% to \$301.3 million in financial 2005. SanomaWSOY is public owned company, there are no ownership bigger than 10 %.

In May 1999, Helsinki Media, Sanoma, and WSOY merged to become SanomaWSOY. In the company's first year of operation, it applied for licenses to operate four new digital television channels, acquired an international business information services provider, Esmerk, became listed on the Helsinki Exchange, and opened its online bookshop. In 2000, the company formed two new subsidiary groups to concentrate on electronic media (SWelcom) and magazine publishing (Helsinki Media). In July 2001,

the company became Europe's fifth largest magazine producer following its acquisition of VNU's magazines business (CIG). During 2002, the company made a number of acquisitions through its operating units, including those of Kaupunkilehti Seiska, Compad, and Jemma. 2003 saw the divestitures of Pro Licensing Nordic and Euromedia. In March 2003, Rautakirja merged into SanomaWSOY and became a 100% owned subsidiary. In June 2004, Ruutunelonen, a subsidiary of SWelcom, merged with its Suomen Medianelonen subsidiary. In July 2004, WSOY acquired a Dutch-based educational publisher, Malmberg Investments. After the completion of the deal, WSOY's operations included educational publishing in the Netherlands and Belgium. During January 2005, Sanoma Magazines, a division of the SanomaWSOY Group, entered into an agreement to acquire Independent Media Holding, its subsidiaries and its associated companies. The company incorporated its Finnish educational operations in January 2006 as WSOY Educational with Hannu Laukkanen nominated as president of the company.

SanomaWSOY is a media company operating in over 20 European countries. Its operations are divided into five divisions: Sanoma Magazines (magazine publishing and distribution), Sanoma (newspaper publishing and printing), WSOY publishing and educational publishing), SWelcom (electronic media), and Rautakirja (press distribution, kiosk operations, entertainment). Sanoma Magazines publishes women's magazines, men's magazines, family magazines, children's and juveniles' magazines, TV magazines, business publications, and custom publications. Sanoma Magazines is SanomaWSOY's largest division. It publishes just under 300 titles in twelve countries (Belgium, Bulgaria, Croatia, the Czech Republic, Finland, Hungary, the Netherlands, Romania, Serbia & Montenegro Slovakia, the Ukraine and Russia). A Dutch commercial magazine sales and distribution organization, Aldipress, belongs to the Division. Sanoma Magazines also distributes films and provides interactive services. Sanoma publishes and prints newspapers. It prints and publishes Helsingin Sanomat, the Ilta-Sanomat, local and regional newspapers, the sports and sport betting weekly IS Veikkaaja, and the Taloussanomat, among others. It also provides news agency, business information, advertising, and picture services. The company owns several

printing plants. WSOY is Finland's a book publisher involved in general literature and a number of specialist publications, including educational material. SWelcom provides electronic media such as commercial television, broadband Internet, cable television, digital television, Internet, mobile services, and audio visual production. It operates the Nelonen television channel and provides pay television services. Rautakirja operates in Estonia, Finland, Latvia, Lithuania, Romania, and Russia. The division consists of a of convenience outlets, R-kiosks, a press distributor, Lehtipiste, the bookstore chain, Suomalainen Kirjakauppa and the movie theatre chain Finnkino.

(Annual Report 2005 – SanomaWSOY Oyj; Amadeus; My Bluebook; Talouselämä)

#### **4.1.8 Stora Enso Oyj**

Stora Enso Oyj is engaged in the manufacturing of paper and wood-based products. The company operates in over 40 countries, primarily in Europe and the US. It is headquartered in Helsinki, Finland. The company recorded revenues of 12 395,8 million during the financial year ended December 2004, an increase of 1.8% over 2003. The net profit was E739.7 million during financial year 2004, as compared to a net profit of E137.9 million in financial 2003. Stora Enso is publicly traded company, the biggest owners are State of Finland – 24,4 %, Knut and Alice Wallenberg Foundation (SV) – 23,8% and Social Insurance institution (FI) – 9,9%.

Stora Enso was formed through the merger of Stora and Enso in 1998. In 2000 the company expanded its business in the US market through the acquisition of Consolidated Papers. In 2001 the company acquired a 26.5% interest in Stora Enso Timber from SPB Beteiligungsverwaltung of Austria following which Stora Enso Timber became a wholly owned subsidiary of Stora Enso. During 2002 the company was listed on the New York stock exchange. Stora Enso acquired AS Sylvester, Estonia's saw milling and wood procurement company in 2003 and AS Sylvester was



renamed as Estonian Stora Enso Timber. Stora Enso signed an agreement with Aracruz Cellulose in 2003 for the construction of a eucalyptus pulp mill in the state of Bahia, Brazil. In 2003 Stora Enso also signed an agreement with Indufor in which Indufor bought Stora Enso's forestry consultancy business. In 2004 Stora Enso and Robert Bosch entered into a global strategic alliance to develop a packaging concept for pharmaceuticals. In September 2004 the company acquired Dutch paper company, Scaldia Papier. In October 2004, Stora Enso acquired 66% of the shares in a Polish packaging producer, Intercell. In December 2004 Stora Enso and Xeikon International established a joint venture, Stora Enso Digital Solutions, for the sales, service and development of a disc packaging solution for disc producers for the music, software, movie and games industries as an alternative to plastic packaging. In March 2005, the company's subsidiary, Stora Enso Timber acquired the remaining 34% shareholding in the Estonian Stora Enso Timber, to gain 100% ownership of the company. In April 2005, Stora Enso and International Paper Company jointly acquired Papeteries de France (PDF). In August 2005, the company acquired Schneidersohne Group, a Germany based paper merchant.

Stora Enso is engaged in the manufacturing of paper and wood-based products. The company has an annual production capacity of over 16 million tones. It operates through seven business segments: publication paper, fine paper, packaging boards, wood products, merchants, wood supply Europe, and other. The publication paper segment is engaged in the manufacturing of newsprint paper, uncoated magazine paper, and coated magazine paper. The newsprint paper includes standard newsprint and newsprint specialties used in newspapers, newspaper supplements, advertising leaflets, telephone directories and paperback books. Uncoated magazine paper is used primarily in magazines and catalogs. Coated magazine paper is used for magazines, catalogs, brochures, and other printed advertising purposes. The fine paper segment manufactures office papers, graphic papers, and specialty papers. The packaging boards segment is engaged in the manufacturing of materials for packaging applications such as consumer packaging boards, graphical boards, corrugated boxes and containerboards, industrial papers for laminating industry, and core boards. The wood products segment

manufactures rough and semi-finished sawn and processed wood products and components. In addition, it also provides customized value-added wood products such as planed, finger jointed, glued, stress graded, special dried, and profiled. The merchants segment is managed by the company's wholly owned subsidiary, Papyrus, and is engaged in the retail and wholesale of the company's products. The wood supply Europe segment is engaged primarily in the procurement and supply of wood for the company's mills in Europe.

(Annual Report 2005 – Stora Enso Oyj; Amadeus; My Bluebook; Talouselämä)

#### **4.1.9 TietoEnator Oyj**

TietoEnator is one of the largest suppliers of IT services in the Nordic region. The company works across various industry sectors regionally and globally in banking and finance, telecom and media and forest. Headquartered in Espoo, Finland and Kista, Sweden TietoEnator has presents in over 25 countries, with more than 15 000 employees. The company reported revenues of 1 682 million euro in the financial year ended 2005. Net profit was 173, 6 million euro. TietoEnator is publicly traded company, non of shareholders owns more than 5 % of the shares during 2005.

TietoEnator was created by the merger of the Finnish company Tieto, and the Swedish company Enator. Tieto started its business operations as a data processing service company, under the name Tietotehdas Oy in Finland in 1968. The company's name was changed from Tietotehdas to TT Tieto in 1995 and Tieto in 1998. The Enator Group was created by the 1995 merger of Celcius AB's IT operations, Telub, Enator and Dialog. The two companies, Tieto and Enator, merged in July 1999. Since the creation of the combined company, TietoEnator has undertaken a number of acquisitions, including Real Data, Odelius New Media, European Medical Solutions and EuroTime between 2000 and 2001. In 2003 TietoEnator acquired the business operations of the

Norwegian IT service company KPMG Consulting AS. Other acquisitions in a same year include MOPS Systems' from Kvaerner Chemicals and OMHEX's energy business operations. In 2004, TietoEnator established a digital innovations unit to provide productised digital medial services and management consulting services. TietoEnator and Hansabank established a joint venture in Estonia in 2004. The company, called TietoEnator Support AS, was set up to provide on-site support services to Hansabank in the country.

TietoEnator is a supplier of various IT services, mainly in the Nordic region. The company operates through the following five business areas: banking and insurance, telecom and media, public and healthcare, production and logistics, and processing and network. TietoEnator specializes in the development and management of customers business operations in the digital economy. Most of its products are produced and distributed digitally via various data networks. TietoEnator's banking and insurance division mainly operates through strategic partnerships with its clients. TietoEnator offers services including e-banking, cards and IT development and maintenance. The company's telecom and media division provides a comprehensive range of IT services including research and development, consulting, systems development and integration. In the public and healthcare arena TietoEnator offers IT solutions within the public administration and healthcare industries. The production and logistics division builds IT partnerships with companies in five key industries; forest (pulp, paper and wood), energy, logistics, manufacturing and the retail sector. Processing and network focuses on information and communications technology operating services and related consulting, integrating and content services.

TietoEnator's domestic market in Finland is the most important for the company, as it accounts for 51% of the company's total revenue. The Swedish market is also very important to TietoEnator as this generates nearly a third of total revenue. Other important markets include Norway and Denmark; around 9% of the company's revenues are generated outside of the Nordic region. TietoEnator has subsidiary locations in 25 countries, including Germany, the UK, the US, Russia, China and the Netherlands.



TietoEnator's subsidiaries are mostly concerned with delivering the company's products and services in their different geographical markets.

(Annual Report 2005 – Tietoenator Oyj; Amadeus; My Bluebook; Talouselämä)

#### 4.1.10 Holistic view

The method and criteria for choosing companies to the study have been presented in methodology section. The main goal was to collect information from large Finnish based companies which have operation abroad and have done international acquisitions during last years. The size of these companies varied a lot in sales and in amount of personnel; the below table represents variation in size. The sample is representing one of the largest companies of the population and picked up from different industries and business natures.

	<b>Min</b>	<b>Mean</b>	<b>Max</b>
<b>Net Sales</b>	986	4 965	12 396
<b>Personnel</b>	12 273	18 773	43 779

Figure 14. Table of size of studied companies (sales – MEUR; personnel – person).

All companies that had been interviewed have some internal acquisition experience, however it hard to estimate the level of their professionalism in acquisitions. It seemed that the level of experience in international acquisition had a big variation according to a company; some of them made impression of very professional level. In general, studied companies had no separate acquisition department, which would concentrate only in making acquisitions. In most cases interviewees represented business development departments or the top management. There were some cases, when an interviewee had been doing only acquisitions. Mostly, acquirers had permanent members in the acquisition team. However, the team worked on the project basis and can't be considered as an acquisition department.

In all cases that have been studied, acquisitions have been the outcome of the corporate strategy. In most cases it has been a growth and internalization strategy. The business nature has a great impact on the ways to grow and on the direction of internalization. Types of made acquisitions depended a lot on the acquirer's strategy and the business environment. However, in most cases acquisitions were horizontal. Also companies had various economic situations; cash rich companies have more possibilities for implementing their strategy, than companies which meet difficult times and have a clear lack of resources.

Companies perceived very differently their success in implementing acquisitions. Some companies viewed themselves as similar to the trends of statistics. By statistic they mainly mean some articles in managerial press, which tells that more than half or even two thirds acquisitions fail to meet objectives. Other companies claimed that they are not making so many acquisitions and they don't have reserve to fail, which push them to make only successful acquisitions. In one case a manager claimed: *"In most cases we success well in acquisitions, in others – very well"*.

	Statistical level	Abnormal	Always succeed	N/A
Amount of companies	2	3	3	1

**Figure 15. The table of acquirers perception of own successfulness in made acquisitions in comparison to statistics.**

In rare cases companies had full manuals for making acquisitions, due to uniqueness nature of every acquisition. However, usually companies provide checklists to acquisition implementers to help them remember all necessary things and to make sure that required decisions are brought to the right level at the right moment.

In very seldom case acquirer had a previous relationship with a target. Depending on the industry there is a previous familiarity with a target. Some industries are very concentrated and acquirers are very familiar with all potential targets and their backgrounds. In some cases an acquirer is continuously contacting a potential target for

keeping a social relationship and itself updated, in terms of company profile and its willingness to sell.

Most of acquirers focus their acquisitions on the European area, especially in the new member states of EU. However, there are also some intercontinental acquisitions made by Finnish companies. If company becomes truly global it will make very difficult to track what acquisitions are international and what are local, since smaller acquisitions are completed by an approval of a regional director, without confirmation from the corporate management. However, all bigger deals (usually over few million USD) are involving a corporate decision maker. For some companies acquisitions are first and the only one possible the entry mode to a new market. However, in general, internalization process following a more consecutive model and there are some previous operations in a target's country.

Not all companies count the acquisition implementation cost, since they keep it too small to consider. Other has a view that it is impossible to estimate and that it worth to pay extra in implementing to get the good deal done. There are some companies which have quite exact budget for an implementation. In discussion of implementation costs, first association of managers has been fees to outsiders, since they consider it as a biggest portion of all cost of implementing a deal. A few managers consider the internal costs of travelling, personnel and facilities.

	Not considered	Estimated Budget	No estimate <i>"Pay all it will need"</i>
Amount of companies	6	1	2

Figure 16. The table of implementation costs.

Roughly half of acquisitions were an asset deal. Everyone has own reasons for that decision. Some acquirers tended to make asset deals to avoid liabilities, other tended to make share acquisitions to get contracts. Also asset deals are made, when a target has been sold out by bigger corporation and there is no separate documentation for that.



## **4.2 Process specification**

During interviews, managers were asked about an importance of each phase in the pre-acquisition process. In general, in the evaluation of phases' importance of managers have stressed strategic phase, due diligence and negotiations. The complexity of due diligence and negotiation phases above others, has been also mentioned. However, some managers refuse to divide phases by their importance. The argument was that all phases are important and necessary and there is no possibility to pull out or enhance only one of them away. *"The process is a chain and the strength of the chain is its weakest link"*.

The strategic phase is difficult to define, in most situations it is even impossible to say when the idea has been born. In some cases, strategic phase has took place few years before an acquisition (e.g. to grow in specific area and specific product market through M&As). A corporate strategy could shape acquisition criteria and the starting point for numerous acquisitions made afterwards. At another hand, strategic phase could start suddenly, when an investment banker represents appraisal for an acquisition which is in the fit with the corporate strategy and the acquirer agrees to start studying target. This happens very rare, although in general, investment banks make appraisals few times a month. The idea of an acquisition could also be born in the division as a necessity. In that case, strategic phase is usually happening in that division and only after previous search and analysis is made, the division management making proposal to the top management.

The search phase starts in the defining searching criteria, which follows the acquisition strategy. Putting right and precise searching criteria is important. If criteria is too broad than the search will provide too big group of potential targets, instead, too narrowed search criteria creates a lack of options. All studied companies had an active or trap search, the waiting for outside proposal has not been noticed. The search of potential targets in unfamiliar environment, especially in case when acquisition is a first entry

mode to a country, is more often require trap search, or contacting some intermediary to monitor the market or reviewing existing sell proposals. Generally taking, the search is not people consuming phase, in many cases it is done by a local outsider, e.g. an investment bank.

Analysing, screening and narrowing down should reduce big population to small group of potential targets, which could be contacted and studied more carefully. At that point, there is no much information available about the potential target. That's why, in general the main concerning points are: product, location, sales, targets estimated financial condition and customers. The main idea is to narrow down the population, however the database, with monitored population group, could be used letter. First contacts are usually made by phone with inquiry of "an interest in the strategic cooperation". The key point in that phase is to find out willingness and obstacles of target's owners to sell target. Usually, that requires contacting target and meeting managers and/or owners. In case, when proposal comes from an investment bank, there is usually an auction; and the acquirer needs to give a first bid to be involved in further phases.

The due diligence phase starts from getting access to all target's documents, people and facilities to make the deeper analysis. Acquirers stress different things and have different aims during the due diligence. The most common are: to evaluate maximum acquisition price, to create ground for negotiations, to identify possible risks and liabilities, to identify opportunities and also to present figures in the internal report to other stakeholders. In most cases its combination of these. "*We do due diligence to find out what we are actually buying.*" However, there are slide differences according to company in which way they are facing the due diligence phase.

The negotiations phase considers all contacts and discussions made with potential target. Depending on the target's country, for creating credibility, negotiations need more or less people of a high rank position to be involved. Some negotiations require CEO or other top management member to be present, at least at the final meeting. Internationality brings own characteristics to the negotiation's environment; and a

country brings own culture in negotiating things. *"You have to eat and drink a lot in Russia before going to deal. At another hand in Netherlands you can get straight to business with a complicated bargain involved."* Some managers perceived that negotiations were going in mixed Finnish and local manners. However, some managers claim that all depends on the negotiation power, and if seller need an acquirer more than vice versa, than seller will be playing on the acquirer habits, forgetting own cultural characteristics. The language of negotiations is usually English (except in Sweden, where some manager found easier to speak Swedish). Interpreters were used in case the level of English were too poor to negotiate. Some manager found that use of interpreter makes negotiations even more difficult and increase risk of misunderstanding and misinterpretation. Not all companies use negotiation tactics, three of nine studied companies did not. Other acquirers, six from nine, keep it very important and try to decide and to simulate that beforehand. The nature of tactics depended on the situation and the target, but for all tactics users the main principle was to not speak untruth. The most commonly used tactic is negotiation breaks. There is no pattern for giving first the offer and who should do that. However, usually acquirers try to get seller to make his first suggestion. Acquirers tend to give their offer (bid) first only in the auction situation. Negotiations are also used as information source concerning to study target's condition. One of the key in negotiations is to find out does the owners have a pressure to sell. Usually negotiations are based on sophisticated formulas and evaluations to provide a fair price for the target. At another words, each party tries to logically argument their offers. The models are usually quite simple and based on sales, earning before interests and taxes (EBIT) or free cash flow multiplied by a variable. Negotiation could bring up to 50% percent change to the offered price. In the family business's target, the seller could be also interested in not-monetary issues concerning target's future, as the management's position, redundancies, business continuity, etc. At interviews, came up that there are were situations were seller have accepted smaller price of the friendlier acquirer. In some cases acquisitions involve many agreements simultaneously, especially if the target is a division/unit of a seller, these agreements could be targets production purchasing contracts, target facilities rent agreement, etc.



The closing phase is usually standard and technical. The closing price structure depends a lot on the situation and the target. The earnout is often used if the old management (previous owners) is staying to run the company, to ensure that they have right incentives in a profit making. Also when future cash flow is very unsecured, the acquirer could demand for the earnout structure. However, in earnout situation, an acquirer could use the situation and avoid official net profit to distribute minimum to the previous target owners. The integration planning should be started at least during the closing phase. The natural way that integration planning is happening in negotiations that both parties are sure and agree on a future plans. However, not all acquisitions leads to an integration or a merger. The duration of closing phase is mostly depending on time when authorities, usually the Office of Free Competition will approve the deal. Depending on a scope and a region, the duration could take up to few months.

#### **4.2.1 Theory versus practice**

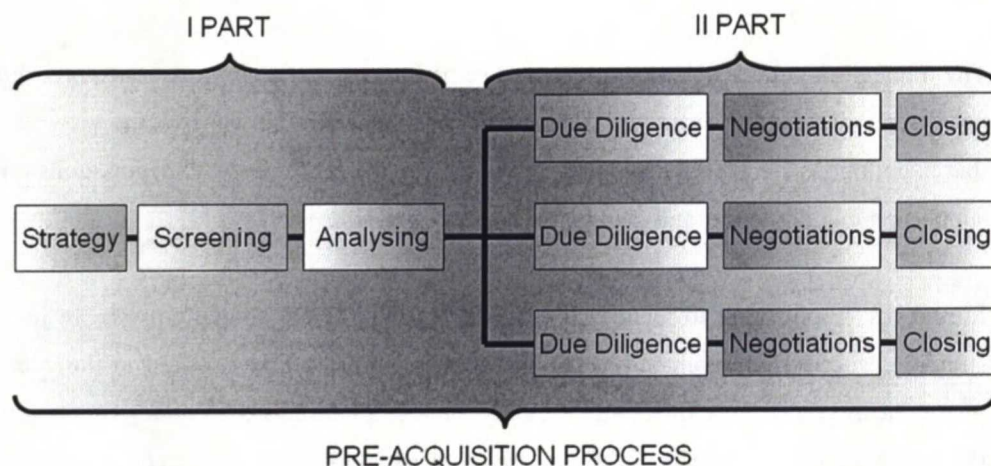
The framework of the pre-acquisition process, which has been created by this study, will be tested in that part. There are some variety how acquirers could perceive the acquisition process, but it is possible to create generalized practical view on the process to find similarities and contradictions to the framework. The general difference was in the order and in the existence of some phases of the process.

In the first section of literature review, the study have developed a model of acquisition process, which involved three stages: pre-acquisition, transaction and post-acquisition stage. The first stage – pre-acquisition, has been divided into six phases: strategic, searching, analysing, due diligence, negotiation and closing phases. Most managers had a terminology diversity; they were using the “pre-acquisition” term to describe a stage before due diligence, negotiations, and closing. The stage, which lasts from due diligence to integration they called a transaction or an acquisition stage. The stage after closing the deal was associated with integration or a post-acquisition stage.

The framework putted the due diligence phase before negotiations. Most of acquirer did not agree with that and described that negotiations come first. In general, the view was that negotiations starts first than simultaneously due diligence pass by; negotiations are supporting due diligence; and than negotiations continues.

In real life it's difficult to identify exact start and end of the strategic phase. In idea, strategic criteria are present through all acquisition process and checked in the every phase. However, in more than half cases, the strategy phase has been done years before the acquisition took place. In other cases, a strategy was implemented through numerous, alternating acquisitions. (E.g. simplified strategy: "to grow throw acquisitions in area X", this could lead to few acquisitions which would take place in following years. In that case all these acquisitions would have same strategy, search and analysis phases.)

In practices, also search and analysing phases are also vanishing. One time done search and analysis can result in few acquisitions. In high concentrated industries, that is possible that all potential targets are previously known and there are no need for searching and screening. In such situation the most probable obstacle is target's willingness to sell. Some acquirers have even a continuously updated list of all potential targets in almost every country in the world, where every target has its own contact person in the acquirer's company. In reality, the acquisition process is not so narrowed, but more branching than the theoretical framework. The picture below, Figure 17 represents such example, where made strategy, screening and analysing phases are resulting in three different acquisitions.



**Figure 17. Two parts of pre-acquisition process.**

The due diligence phase is the most complicated part of the studied process, which require a cross-functional coordination. However, some acquisitions had very limited and short due diligence phase. In extreme case there was only legal due diligence of one file of documents. Other contrast is to have legal, financial, auditing, marketing, human resource, organizational, IT, environmental and other due diligences in a same phase. The reasons for such big differences are the size of an acquisition, the business nature and the current situation. The framework suggests that all kinds of parts are important, but there are no stress what is more important in which industry or situation.

The theoretical view on the negotiation phase in the international acquisition involves a lot of discussion which stress cultural difference. However, almost all managers didn't give much respect to that and did not keep that as an important factor for successfulness. Of course, they were aware of differences according to countries, but the general view was: *"If people meat to make business and they have authority and willingness for that, they will make business regardless cultural differences."* The bigger obstacle has been regarded as a lack of common language, which could be managed with an interpreter.

The closing phase did not have any contradictions in comparing the practise to the theory. Literature suggests that the integration plan should be started as early as



possible, some author suggesting that the integration planning should be started already in strategic phase. In reality, acquirers tended to start the integration planning after the major decision is reached in negotiations, since they had already all required information about target and they are sure that the deal will take place.

#### 4.2.2 Holistic view

Pre-acquisition process, from zero point to deal closing, at first should be divided into two parts. These parts would have a concrete stepping stone in between, which are easily traceable. That stepping stone is when acquirer decides to study concrete potential target more closely, approach it and make initial agreement or equivalent. The first part of pre-acquisition process would have strategic, searching and analysing phases. The second would have due diligence, negotiations and closing phases. That is good to be mention that the first part can result in numerous second parts, or in another words based on work made during first part, several approaches to potential targets could be made or even few acquisitions. This idea is presented in a picture below, the figure 18.

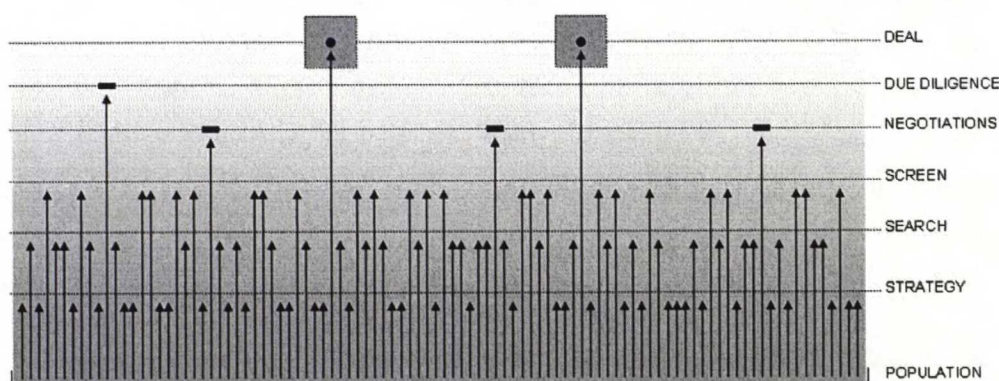
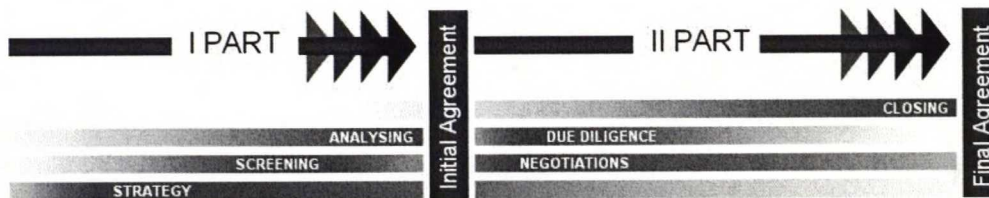


Figure 18. The process of narrowing down.

The framework of the study has divided the pre-acquisition stage into six phases. However, the amount, the order and the duration of phases are very case specific. The phases of pre-acquisition process should not be considered as steps, but as actions that happening on the different levels. Some phases could happen simultaneously and overlap with others. In many cases it is not easy to define the starting point of the strategy. However, the outcome of decision making process, the decision has a concrete point in time, but often its done when previous, superficial search has started. In case, an acquirer is entering for first time to a new market, where he does not has experience and information, that is natural, that search and analysing phases would be happening simultaneously. Since an acquirer do not have enough information concerning potential population group, he would need to shape his screening criteria on the ad hoc basis. The reason for that is too big group of potential targets slow down decision making process and at another hand too small group will not provide enough options.

The second part starts from discussion with a target which could result in providing access for the acquirer to documents, personnel and facilities to make the due diligence. After due diligence have been made or even during it, the discussion between an acquirer and a target continues until parties reach agreement and start to plan the closing of the deal. The discussion could also end to a rejection of the deal. The negotiation phase considers all contacts and discussions made with a potential target. That makes analysing and negotiation phases have same moments before an initial agreement. There are could be negotiation breaks, if parties have difficulties to find a compromise. These breaks could be initiated by one party as a tactics for negotiation or it could be the natural outcome of a situation. The duration of these breaks could vary from one week to few years (e.g. 8 years break have been mentioned in one studied company). In that situation, nobody knows is it just a negotiation break or a deal rejection until negotiations will continue.



**Figure 19. Two parts of the process with overlapping phases.**

Like have been mentioned above, the first part of an acquisition could results in numerous approaches to potential targets. Some companies even making continues search and screen to be aware of all potential targets. Some acquirers also continuously contact potential targets to find out their willingness to sell. The high concentration at an industry could lead to that the amount of potential targets is very limited. When an acquirer continuously screening their competitors, he do not need to have a separate search phase, when he decides to grow through horizontal acquisition. That's why the presence of screening and analysing phases is not obvious.

The duration of phases could vary a lot by situation. The duration of the strategy phase could be counted in years or in another case the decision of an acquisition could be made in a few days. Continues search of ideal target could least for eternity, instead analysing is usually made in less than month. Also negotiations could be never ending. However, due diligence is due to the many reason has limits in time, depending on size of acquisition it could vary from few days to few month. The time period is usually defined in negotiations and usually the target tries to minimize it. The data room access is often limited to a few days. In some situations, the long duration of closing phase could come from waiting approval from the Office of Free Competition, this approval could take up to three month.



### 4.3 Organizational architecture /Structure of acquisition team

The studied companies had represented slice different organizational models. Some organizations tend to have more open and informal control mechanisms; others had more strict guidelines for an organ activity. The acquisition related decision making process could go through different departments in the organization. In most studied companies, the business development department (corporate design and planning, or similar) had been directly under the top management or even partly belonging to the top management team.

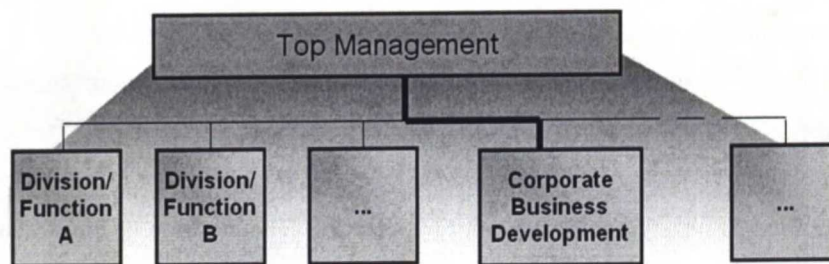


Figure 20. The organizational setup, corporate functions.

The acquisition team could be brought together by various criteria and factors. The main idea is to take people from different stakes of organization. There should be people representing division for whom an acquisition is made, also people that represent corporate interests and people experienced in acquisitions. The team's size could be smaller if members simultaneously represent both – interest of one stake and expertise in acquisitions. The limiting factor is the personnel's availability for a project, since the best people could be already involved in other projects. *"The required human resource is not laying on the shelf waiting for its activation; it's all time involved somewhere."* However, interviewees had stressed that at least the operational manager, the corporate lawyer and the chief financial officer should be involved into the process.

Usually, the acquisition team is having a big picture of the project and all information related to the acquisition goes through the acquisition team. That makes that the team as a connecting point for all activity of the acquisition process. Some issues the team is handling by themselves, other it delegates to sub teams, which could be either partly involved to the process or be totally outsourced. (E.g. the operational due diligence in an acquisition of plant could follow such scheme: Acquisition team asks some of internal, experienced, operational managers to go to target's plant, and to evaluate its current situation and the improvement that need to be done for achieving strategic goals. One or a few of these managers goes to the plant, makes their judgements and tell about it to the acquisition team, in some cases manager could deliver written report on a target's situation.)

There are two general extreme models for managing the acquisition process. In the first model, the core acquisition team acts as a coordinator and a controller of task projects, which are provided by outsiders. In the another model, members of the core team are managing sub teams, which could consist of internal or/and external specialists. In most studied companies the hybrid mode of this two has been adapted. (E.g. often, legal issues are outsourced and there is one internal lawyer in the team for coordinating and controlling outside legal advisors.)

#### **4.3.1 Theory versus practice**

In practice, usually, acquisition teams were created only after there is some kind of a scratch of the deal. The main mission of the acquisition team was negotiations and the due diligence. Before that, there were no concrete teams established and the process was pushed by an initiator, which could be a division head, a business development department or the top management. In cases when the first part of pre-acquisition was followed by several acquisitions, the second parts of pre-acquisition have been made in

turns, due to: a lack of human resource for the acquisition team or made confidentially agreements with a target, which limits acquirer's activity during the acquisition process.

Most studied companies did not have a separate acquisition department and acquisitions were handled under business development departments in combination with operational and top managements.

Meckl in his article had divided sub teams due to each phase of the acquisition process. However, in studied companies sub teams have been organized due to a concrete task. The similarity was that sub teams could be filled with internal personnel or external specialists. Also combinations of those were used: only internal, only external, or a combination of external and internal. The other similarity was that usually members of the core team were simultaneously leaders of sub teams.

Similar to the framework, in less than half companies a steering committee was assembled to follow and to advise the acquisition team. Mostly combined from the top management, the steering committee is continuously contacted by the acquisition team. However, the steering committee has not always been formed and in some case a leader of the acquisition team was the member of top management, which ensured the presence of required authority and expertise. There was a company that had a permanent virtual steering committee.

The size of made acquisition had a grate impact on the extend of an acquisition team structure. Smaller acquisitions could have only few members, who are completing all required tasks. In such acquisitions a due diligence could have only legal analysis; and negotiations will have a few, two-person meetings. Based on that, smaller acquisitions do not have a sharp structure of the acquisition team.

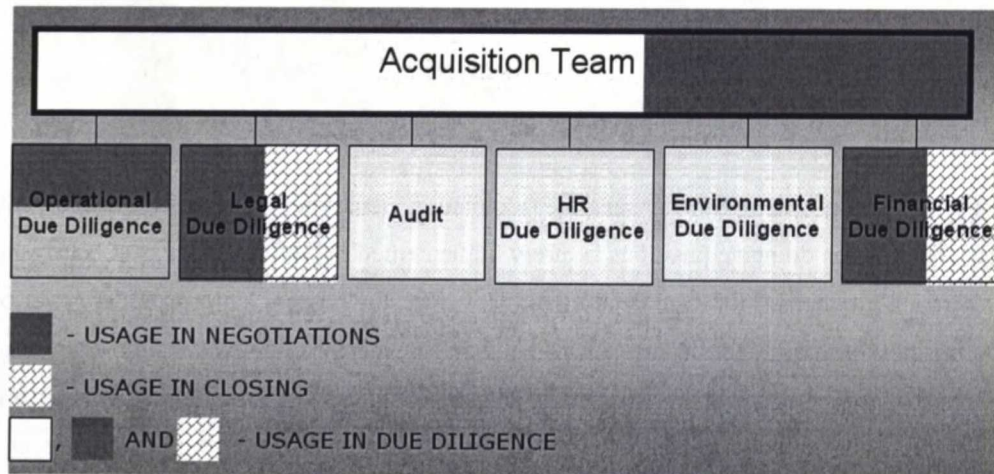


#### **4.3.2 Holistic view**

The pure concept of having separate acquisition department, in which people only concentrate on doing acquisitions is rarely implemented in reality. The reason is natural, there are no demand for such department. However, the process happens under cover of a business development department or equivalent, where people responsible or at least tracking all acquisitions that happening in the corporation. The core acquisition team could change its composition every time, since every deal has its own characters and specifics. Another reason is the availability of required specialists, who could be involved in other projects at the time.

During the first part of the pre-acquisition process, there is no formal structure. From strategic to analysing phases, the acquisition process is usually pushed by an initiator, who could be a division, the top management or the business development department. Only when a potential target is specified, the initiator making the proposal for the top management to get involved into the deal, to make an initial agreement, and to approach a potential target. The acquisition's proposal contains a description of the potential target, the acquisition team and structure, and other related details.

If company decides to involve into the deal, the acquisition team is formed. The team's mission is to lead an acquisition process through negotiations and the due diligence to the deal's closing, or to find that a target is not appropriate for acquiring. The phase when the acquisition team has its biggest size is during the due diligence. Based on that, to include whole illustration, the study will present slice from the due diligence's perspective. It's good to be mentioned that the negotiation phase is usually happening simultaneously with the due diligence, and that a planning of closing starts from very beginning of the second part of the pre-acquisition process. The picture below represents a involved of members in different phases of the second part, figure 21.



**Figure 21.** The usage of members in three phases of the pre-acquisition process.

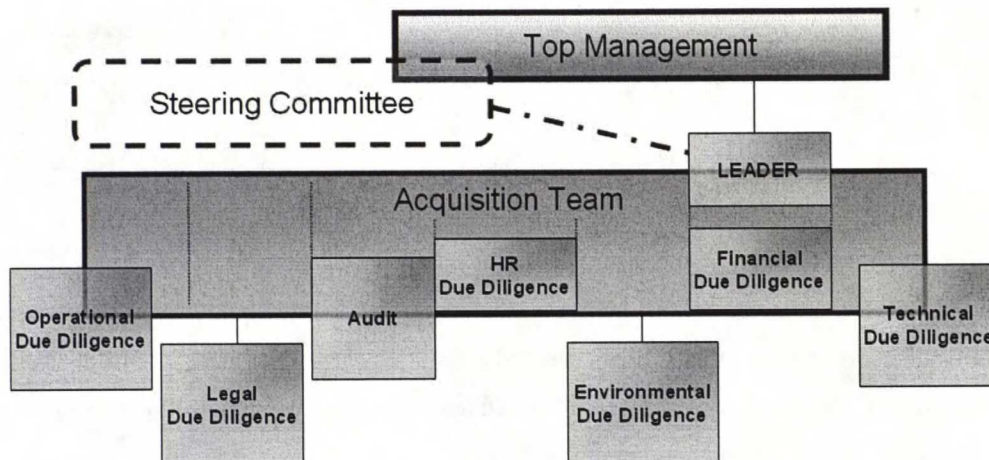
There are three main pattern of an organizational structure of the acquisition team and its sub teams.

*The first type* – the acquisition team could have from tree to seven members. The team would have numerous sub teams that concentrate on a specific task. The leader of a sub team would be simultaneously a member of the core team.

*The second type* – the acquisition team would have from three to five members that coordinate sub teams without a closer involvement.

*The third type* – the large acquisition team, where all members are involved in the process. Each member is doing and responsible for own specific task. The size of such team could easily be up to 20 members. All tasks are coordinated by the team leader.

These types are ideal and in reality an acquirer could use a type of structure in terms of one subject and another in terms of other. That depends on the situation and the team's capability. The picture below represents a hybrid mode of these three types, figure 22.



**Figure 22. Mixed structure.**

Usually, every team has a leader and it is not common that teams are managed in democratic pattern. The leader divides tasks between team members and acts as a connecting point to the top management or/and to the steering committee.

Some companies have a steering committee that has a main mission to support the acquisition team on the daily basis. The usual pattern is that the acquisition team is keeping the steering committee up-to-date and consults with upcoming problems. The steering committee consists of people experienced in acquisitions and with a grater authority. However, the purpose is not reporting, but to mentor the team and to prevail pitfalls. In real life, a steering committee could have virtual form and its members not actually meeting for the purpose but are keeping in touch in case there are some incomprehensibility or a special situation.



#### **4.4 The usage of outsiders**

Acquisitions require different sort of specialists. When there is no internal expertise, an acquirer is hiring it from outside. In that sense, asset deals are easier since they need less expertise in legal and audit issues than the share acquisition. In this study, every company has been using the help of outsiders. The amount and tasks divided to outsiders depended on an acquirer's general attitude towards external specialists and on the current situation. Most of acquirers tended to use international and well-known consulting companies, since they are more trustful, convenient to find in local country, easier to communicate big-to-big company and provide broader services. However, there were a few exemptions, when an acquirer tended to test specialists before hiring them. Those acquirers were picking up outsiders based on their professionalism, not company name. The main thought behind was, that hiring big-famous outsider involves paying for a brand name of that consulting company, also big consulting companies tend to have a lot of entry-level partners, who are smart, but don't have enough practical experience.

Some acquirers used outside advisers as a part of their acquisition team and share with them all information. Others tended to outsource a special task for an outsider and use the results in making decisions. This has been discussed in the section of an organizational structure.

The trust or the faith to an outsider's produced results varied according to an acquirer. Half of studied companies were strongly confident in quality that outsiders have been produced and didn't doubt the results. These companies didn't sow the sense of hiring somebody to doubt and check its outcome. Three companies had trust toward outsider, but they showed awareness that they could not make miracles and that there are should be natural scepticism towards future promises of outsiders. One company had been over-sceptical to outsiders, based on their different incentives, supernatural promises and short run mistakes without consequences. However, the last view had

related more to investment banks than others outsiders. Some managers presented disappointments not in term of a lack of faith and validity of result, but in terms of quality. By quality they meant staying in schedule and keeping deadlines.

	<b>Weak</b>	<b>Average</b>	<b>Strong</b>
<b>Amount of companies</b>	1	3	5

Figure 23. Table of level of trust towards outsider's produced results.

Outsiders very rare used in strategic phase, only some acquirers used business management consultancies, but the same consultancies are not used in further phases. Almost every week acquirers gets visited by investment bankers with new proposals for an acquisition of a target. The studied companies very rarely have given such proposal a closer attention. However, in the search phase, the usage of outsiders is common; usually investment banks in target countries have better possibilities to search for all kind of possibilities at the target market. The reasons for that are economics of scale, experience and closer location. Investment banks get a success fee, which is paid only from completed deals, by this method an acquirer could use free work force to study possibilities of the market. Another thing is that big, famous investments banks are interested mainly in a big acquisition and they don't want to be involved in smaller ones. Narrowing down the population of potential targets is usually made by acquirers themselves. An acquirer might contact more than hundred potential targets to investigate nuances and willingness of strategic cooperation of a target.

The due diligence phase a most complicated in sense of coordination, since it involves a lot of internal personnel and various outsiders. Usually each internal specialist coordinates an outsider company in completing a specific task. The studied companies have used mainly local outsiders; there was some exception of using Finnish environmental consultancy. In very rare cases acquirers used outsiders in negotiations. One basic assumption is if a seller use intermediary to negotiate, that is easier to also use a representative. The closing phase requires some help of outsiders, especially local legal skills in creating contracts.

All studied companies had in general a same fee system for outsiders. That tells that outsiders charge the same way their clients, however this doesn't mean that they do charge the same amount. Investment bankers are getting a success fee, which is the combination of a flat fee and a flexible fee. The flat fee is not always used, but if it is, than it could be based on time (month fee) or just a lamb sum for the deal. The flexible fee is usually depending on the size of the deal and it is not realized if deal is rejected. The amount of the flat fee varies from a country to a country, North European countries tend to have bigger portion of a flat fee than Central Europe. Other outsiders getting the fee based on their work. Usually the measure of work is based on the spend time, in some cases it is a lamb sum, which is based on estimated amount of work.

#### **4.4.1 Theory versus practice**

In general, there are no significant divergence between the created framework and  
• gathered information, but through the practical study, came out more clarity of the subject.

The usual outsiders were auditing companies, consultants and more rare investment banks. Others were not mentioned by interviewees. Similar to framework the choice of outsider depended on size, reputation, expertise and above all previous relation. One discrepancy is that acquirers were very rare using outsider in negotiations.

The fee system had some discrepancy with theory. In real life only investment banks were getting a percent based fee, which is also adapted to price's levels, which made that the bigger price will lead to the smaller fee for an investment bank. All other outsiders were getting the fee by their amount of work or according to spent time.



The risk of using outsider, what have been mentioned by Triantis could exist in using outsider for the first time. However, the most of studied companies have minimized that risk by creating long term relation to outsiders. That makes outsider's incentives similar with interests of an acquirer. Some acquirers have even build partnership with outsiders to ensure the maximum involvement and the benefits from cooperation.

#### **4.4.2 Holistic view**

Without outsiders help it is almost impossible to complete a deal. Outsiders are used in every deal. Outsiders not only bring own field expertise, but also a local awareness and experience. Especially, it is important for an acquirer, who is entering a new market through an acquisition. The usage of outsiders varied a lot according to an acquirer, especially, varied relationship and attitudes. Some outsiders are coordinated to complete an outsourced task; other could be a part of the acquisition team.

In general outsiders have a similar fee system around the world. The legal, audit and other advisers charge acquirers usually by spend time or by amount of work. However, investment bankers charging a success fee, which could have variations in flat fees and fee for rejected deals according to a country and a bank. In general, the main portion of compensation is a success fee, which is based on percentage of a closing price. It is good to be mentioned, that based on a fee system outsiders have different goals to an acquirer. It is hard to build right intensives for an outsider; to make them follow the best interest of an acquirer. Few of that intensive could be a fee system which changing according to closing price's level, the bigger level the less they will get. That is more or less have been used with investment banks. Another way is a partnership and a long term relation which makes a communication easier and more efficient, and an attitude more long term and personal.

The choice of an advisor is rarely based on the price for the services, instead acquirers usually checking the level of expertise. There is a strong tendency to choose same outsiders to make targets audit in due diligence, which is making audit for an acquirer. The good reputation of an outsider and a large brand name has positive effect, especially, when the acquisition team convincing the top management or the board of directors to get involved to the deal. However, the actual users and coordinators tend to have a view that there are no significant differences in output of big-famous vs. small advisors' companies. *"There are could be the grate company behind the people we are hiring, but we still want to check these people individually to make sure that they are really what we are looking for"*.

The usage of outsiders is not obvious in every stage. In the strategic phase, the usage is very rare and it is usually a management consulting company. In some cases investment banks could bring an idea to an acquirer and by that become a part of the strategic phase; however, that happens very rare. The usage of outsiders in searching and analysing phases is more common, especially, if an acquirer does not has a direct contact to the target's country. In that case, the search and the part of analysing is usually made by an investment bank. The first contact to potential target usually made by an acquirer itself; to avoid a high price expectations, if a global and famous company will approach the target with an intent for an acquisition. A rare due diligence happens without outsiders, there are could be numerous different companies involved, like legal audit, financial, environmental, human resource and other advisors and investment banks. The usage of an outsider during negotiations is uncommon. During closing phase advisors could be used for structuring the deal and draw up agreements and required documents.

None of studied companies have mentioned the usage of mediators and coaching consultants. In some situations a target company ordering from an investment banks a vendors due diligence to present it for potential acquirers. However, this report is not exempt acquirers from a need to do own due diligence.

#### 4.5 Stress of skills

By skills this study means an expertise in the some special field. The studied expertises were from following fields: accounting, finance, law, marketing, human resource, risk management, environmental issues, target's operations, target's market and acquisitions. Studied companies did not provided exact information on what skills are more important than other. Some managers tended to not regard the relative importance of skills involved, since they found that this way of thinking as an irrelevant. *"There are many ways to spoil a deal."*

However, the often respond was that most important is to understand the acquisition process and to have an acquisition expertise. This expertise not required from every team member, but at least a leader of the core team and preferentially other team members would have it. The most important thing is that the leading members would know what to do and where to take next steps. In general, companies that have been involved in acquisitions without the acquisition expertise, during first time made a lot of "mistakes" and they claimed *"First time had taught us a lot."* Almost all managers told that they continuously learn from making acquisitions. In most studied companies the first international acquisitions of an acquirer has developed the internal acquisitions expertise. All interviewees had an expertise of making deals, however some of them had stresses the continues analyzing and learning from mistakes, or thinking of ways to do things better. The acquisition expertise was also called as the process expertise. *"The process expertise is very crucial, that an acquirer could try to avoid big mistakes first and than only a small ones. Small mistakes come every time and they not spoil the deal and it possible to fix them later."*

In almost all cases, managers have not perceived a lack of any skills, if there was an internal lack of a skill, it has being filled with the external specialist. A manager told that, there is always a lack of skills in managing international and local levels at the same time. To have *"Think global, act local"* – philosophy.



The legal expertise has been stressed by all managers, but not spoken any deeper; since they kept it obvious that without lawyers there will be no deal. Composing agreements and a legal due diligence has regarded as one of the most central part of the deal making. However, these specialists are usually come from outsiders for two reasons. First, legal issues have local specialization. Second, acquisitions issues have narrowed specifics which are rarely present in-house. However, in asset acquisition lawyers and auditing are less important for the acquisition's outcome. The importance of lawyers makes them to get large fees for their work. Another reason for lawyers' high fees in acquisitions might be that not so many lawyers are interested to be involved. A manager stated: "*Lawyers keep acquisitions very boring.*"

The broad term of a risk management was also stressed by managers. The strategy, marketing and operation skills are basics for creating guidelines for acquisitions. These skills should be in-house for creating a successful acquisition plan. The local market experience is also kept important, but that usually brought by local outsiders, since in less than half cases, an acquirer had a present in the target's market.

The negotiation skill is have been stressed by most of the managers. In some cases, in the smaller acquisition made totally by a division, the corporate acquisition team members have been involved only at the negotiation phase, since the division did not had that skill. Companies varied a lot in light how they regarded negotiations. For different reasons, some companies is tended to take more members to negotiate and other as less as possible. Negotiation skills involved understanding of negotiation tactics and the deal making expertise.

A interviewee told that as interpersonal skill, internal trust should be created in the acquisition team. This trust considers not only sharing all related information to an acquisition with all acquisition team members, but also the understanding and keeping of confidentiality for information.

#### 4.5.1 Theory versus practice

There were slide differences in regards of skills stressed by interviewees and the skill framework created by the literature. However, in this stage should be mentioned that most of literature were not scientific and were collected from the managerial press and each author had a narrow view on a certain skill.

Skills \ Phases	Strategic p.	Searching p.	Analysing p.	Due diligence p.	Negotiation p.	Closing p.
Accounting				X	x	X
Finance	X			X		X
Law				X		X
Marketing	X			X		
HR	X			X		x
Risk Management				X		x
Environmental				X		
Operation	X			X	X	
Target market				X		x
Acquisition	X	X	X	X	X	X

Figure 24. The table of skills matrix with phases of the pre-acquisition process.

The main similarities were concerning an acquisition expertise and that the due diligence requires almost all kind of expertises. The differences were that legal skills kept much more important than it has been putted in the framework. Another thing is that the theoretical part of the study has overlooked the importance of the negotiation skill, which has been brought up by most of the interviewees.

A lot of literature had a financial perspective. However, in this study the valuation of target was rare based on financial methods. The probable reason for that is that studied targets were not publicly traded companies.

Almost all studied companies followed BenDaniel and Rosenbloom thought that environmental regulation is not a similar in different countries. In most cases, an environmental analysis has been a part of the due diligence. Also, the ethical responsibility of the corporation has been mentioned by a few of interviewees. (BenDaniel and Rosenbloom, 1990)

#### **4.5.2 Holistic view**

In that part, the study will adjust the framework with gathered information in the united view. The general theoretical view is that a lot of different skills are needed and are important in the acquisition process. However, each acquisition has own stress on required expertises. Without some skills is almost impossible to make a deal, but they is not necessary have to be in-house; they could be brought by outsiders. However, some skills are impossible to outsource and their present in-house is vital for the deal outcome. That's why, at first that is important to divide skills in a two separate groups. The first will represent the skills that are should be in-house of an acquirer. The other group will have skills that could be outsourced and brought by outsiders.

The most critical skill which should be in-house for making an acquisition is the acquisition expertise. Some companies have this less than others, but it is important that at least a leader of the acquisition team has this skill. In principle, if the leader has an acquisition expertise, he could coordinate the team, divide tasks between members of the team, and avoid pitfalls created by inadvertence. In extreme case, if there is only an acquisition expertise in-house, all other skills could be outsourced or taken from outside. The acquisition expertise could be also regarded as a deep understanding of the



acquisition process. The more people have it in the acquisition team the better potential has the deal.

The another important internal skill is strategic expertise that makes sure that an acquisition is following the corporate strategy and that all steps and decisions are made in regards of corporation interests. Marketing and strategy skills are that usually get the idea of an acquisition going. The understanding of corporate strategy and based on that created acquisition criteria are very important platform for an acquisition success. The marketing skill is important for understanding how to implement these criteria in real life rationally, and together with an operational view can create realistic future perspectives and scenarios.

The operational expertise is very important for understanding what an acquirer is actually buying. In horizontal acquisitions, that is easy to find an operation expertise, since targets are in the same business. The operation expertise is better to have in-house, especially if acquirers are planning to change, integrate or enhance targets business. The planning could be made only by internal personnel, since outsiders could have different intensives in representing results and a future development.

The skill that have been overlooked by the theoretical part is a negotiation skill. That is better to have that in-house, since it complexity in outsourcing. At the end of the day, a n acquisitions is a large deal. And that requires deal making and negotiating expertises.

The human resource expertise is used rarely in studied acquisitions. However, some acquisitions are very personnel and talent oriented, and in that cases human resource due diligence is one of the most important one. Another thing is that human resource due diligence should be made in regard of acquirers needs and strategy, which makes it important to be made by in-house experts.

All other skills and expertises could be brought by outsiders. They will be mentioned below. Target market expertise is an important skill, but it usually totally brought by local outsiders, if an acquirer doesn't have any presents in a target's market.

The accounting skill provides audit of a target, which is important part of the due diligence. Usually it is made by outsiders and the same company what is doing acquirers audit, but by the local office in target's country. It is important to have a local specialist, since accounting standards and practices vary a lot to a country.

The financial skill is providing valuation techniques, which gives guidelines to the target's maximum value in price negotiations. It is not important to have in-house, however many of acquisition experts have a financial background.

Lawyers are very important part of the acquisition process. Without them it is almost impossible to make any agreements, to check the documentation and target's situation. However, this skill is usually brought by outsiders, since it need understanding of acquisition specifics and a rare acquirer have this expertise in-house.

The term risk management has been used very differently. In many cases that expertise refers to checking of all risks that a target brings, since they can be buried in accounting, liabilities, environmental issues or even market situation. That's why an acquisition expert is supposed to have understanding of acquisitions risks, to be able to check them. Some of the risks could be transferred back to a seller through agreements.

#### **4.6 International perspective**

Each country has own specifics which affecting the acquisition process. These specifics are not affecting the order and amount of the phases; but these specifics also shape the nature of phases and their intensiveness. The biggest effect of international aspect could be noticed in the usage of outsiders and in the skills required for the process. The most affected phases by international aspect are the due diligence and negotiations.

For Finnish companies some countries are easier to enter and to operate than other. All interviewees agreed that there are differences according to a country; and that to enter in Sweden is much easier than to Russia. Western European countries have a more developed documentation system comparing to Post-Soviet Regime countries and that makes it easier in making the audit. Less developed reporting systems make it more difficult to check documentation and a legality of the target. The difference in accounting reporting standards and practices force acquirers to use local advisers and auditors.

Also negotiations at Western Europe are more deal and price oriented. The negotiations with Slavic partners, at beginning, will tend to get a personal perspective before going to the business issues. *“In Netherlands time is spend for bargaining a deal details. In Russia, almost impossible to make a deal without creating personal connection to the seller.”* Negotiations are usually effected by a local culture, but it also varied according to a company and a situation. Some companies had negotiations that followed more local structure, others had a mix of local and corporate home culture, in some companies negotiations where done in terms of corporate home culture. The reasons for that is an acquirer’s attitude toward international negotiations and the balance of negotiation power in a current situation.



#### **4.6.1 Theory versus practice**

There are no significant discrepancy between the theory and gathered information; both views are supporting each other. However, the stress of internality is a little bit different. The literature suggesting that international acquisitions are has an influence in its every step. However, in practice, the international perspective is noticed mainly in searching, due diligence and negotiation phases. The closing phase has a too little influence to be mentioned that. Other phases, strategic and analysing phases are more or less the same comparing to a domestic acquisition. It is natural, that an international deal is a harder decision than a domestic invest, but the nature of the decision making process is not changing.

#### **4.6.2 Holistic view**

International factor is shaping and modifying the acquisition process. However, this is not changing the amount and the order of phases of the pre-acquisition process. In general, international acquisitions are longer in their duration and are relatively bigger investments. In the most of studied companies, the international aspect of acquisition could be noticed in every phase of the acquisition process. However, the significant divergences take place only in searching, due diligence and negotiations.

In the strategic phase, an acquirer has to make a longer term investment and to take a higher risk for the investment. Making the search of potential targets could be almost impossible for the acquirer without outsiders, if the acquirer does not have the presence in the target market. Also, contacting a potential target is not as easy as in the domestic market.

The due diligence phase has a lot of international aspect. Starting from surrounding environment of a target, which should be studied from the zero; while, in the domestic

market, the acquisitions environment is more or less familiar. Due to differences in reporting and documentation systems, it is necessary to hire local auditors and advisors. Almost every part of due diligence will require the assistance of local experts.

The negotiation phase is strongly affected by international aspect. It is obvious that people with a same national culture and language will easier and faster find a solution than people with different backgrounds. There are a lot of factors which rise during international negotiations, one is the level of trust to the partner is smaller than in domestic negotiations. The language that is usually used in negotiations is English, in some cases interpreter is used to ensure parties understanding. However, the language that for both parties usually not a mother tongue creates a misunderstanding risk. The interpreter makes this risk even higher, since he adds one link between parties and thoughtless creates a risk of garbled version and misinterpretation. The closing phase involves more advanced agreements and approval from authorities.

International acquisitions tending to pull people to the acquisition team with a more international background, and as it was mentioned above, local outsiders. For some companies, it is very difficult to define an international perspective, since they have present in almost every country and acquisitions in non-home country is usually made by a local management, without help of the head quarter. For those companies, international acquisitions are the large ones since they have involved personnel and decisions from the head quarter. However, it's not easy to define an international acquisition for the global company.

## **5 Completion**

### **5.1 Conclusions**

Complex and polyhedral projects need many-sided solutions. In that sense, acquisitions have a very polyhedral process that requires different kinds of professionalism for the implementation. In addition, every acquisition is exclusive and the management thereof requires ad-hoc decision making. This makes the description of international acquisitions difficult, especially in a compact form.

The theoretic part of this study created a framework which combines in itself the theories of the acquisition process, management of acquisitions, the required expertises for the process, and an international factor of acquisitions. The empirical part tested and supplemented the framework with the use of the information gathered from the interviews. Through the synthesis of the empirical with the theoretical parts, the study is able to approach the research question: How international acquisitions made by Finnish companies are managed and organized, in terms of creating acquisition teams and coordinating the process?

There was no possibility in this study for an objective evaluation on the level of acquisition expertise of the studied companies. However, a subjective view of the interviewer is that all of the interviewed acquirers were prepared and well managed for the international acquisitions. Simultaneously, there were some differences in the level of expertise and experience.

For answering a research question the study could create a generalized illustration: there are no separate acquisition departments, which are continuously doing acquisitions. Each time a new acquisition team is assembled on a project basis. This occurs when there is an internal appraisal of a target. The main mission of the team is to complete the negotiation and due diligence phases. The early stage of the pre-acquisition process is



pushed by an initiator. A steering committee mentors the acquisition team through a leader, who coordinates the core and sub teams. A sub team is formed to perform a concrete task (e.g. legal due diligence, negotiation sub team, etc.). Depending on the task, situation, and organization, there are different levels of the sub teams' involvement to the core team. Third-party companies are integral part of acquisitions; outsiders assist and provide services to an acquirer, especially during different parts of the due diligence. The required skills should at first be divided by their importance in regard to two parts, one of which should be present in-house and the other which could be outsourced. The most important in-house skill is acquisition expertise; other important internal skills are operational, strategic and marketing skills. Ideally, all other skills could be outsourced or brought to by third-party companies. The most vital skill in the acquisition process is legal expertise, which can be outsourced.

It should be mentioned that the generalized illustration, presented above, makes simplification of related nuances. The short description of a subject of every sub question is presented below.

**Process specification.** In this study, the pre-acquisition process will be considered to span from a zero point to the deal closing. The study divides the pre-acquisition process into two parts. The first part lasts until an acquirer has made an internal decision to approach a target. Here, the second part starts and lasts until the deal is closed or rejected. The first part includes the strategic, searching and analysing phases. The second part contents the due diligence, negotiations and closing phases. It is possible that a first part can end up in numerous second parts. There was a similar division of phases in the theoretical study, but there were no other work that includes the possibility that a first part could have numerous tails. This study has made its own division based on Salter and Wainhold idea, which has been combined with Aiello and Watkins view on the acquisition process. (Salter and Wainhold, 1987; Aiello and Watkins, 2000) Phases are considered as actions that are happening at the different levels and not limited by each other in time.

*Strategic phase* – the acquisition strategy should include motives for acquisition, acquisition criteria, and an acquisition plan with delegation of responsibilities and the creation of an acquisition team. *Searching phase* – finding as many potential candidates as possible that fit with the acquisition strategy. *Analysing phase* – the candidate group narrows down to few potential targets; checking their interest for a possible acquisition; choosing one target for a closer approach. *Due diligence phase* – deep analysis of all documents, facilities, personnel and environment of a target. *Negotiation phase* - contacts, meetings and discussions made with the potential target. *Closing phase* – a final decision to acquire; other solutions concerning the method of payment, the structure of the deal, agreements, approval from Office of Free Competition and integration plan.

**Organizational architecture.** Generally, acquisitions happen under the cover of a business development department or an equivalent. Rarely do companies have a separate acquisition department or a constantly operating acquisition team. More often, the selection of people and the partition responsibilities within the acquisition team happens on a project basis. During the first part of the pre-acquisition process, there is no formal structure and the process is usually pushed by an initiator. Meckl describes initiators and their cooperation: they could be a business development department, a business unit head or top management. (Meckl, 2004) Only when a potential target is exactly specified and approved, is an acquisition team formed. The team's mission is to lead an acquisition through negotiations and due diligence to the deal closing, or to find that a target is not appropriate. The acquisition team changes its composition every time, since every deal has own characters, specifics and requirements. However, there are some constant members in the team. The study agrees with authors that the team is the biggest in size during due diligence phase. (Triantis, 1999; Meckl, 2004) This study agrees with Meckl's claim that the mission of a steering committee is to support, to mentor and to advise the acquisition team on a daily basis and to prevail ones pitfalls. (Meckl, 2004) The team keeps the steering committee up-to-date and consults in time on upcoming problems. The steering committee consists of people experienced in acquisitions and with greater authority. The study also identified that a steering



committee can be in a virtual form. The study, Dionne and Meckl, agrees on the mission of the team leader, who divides responsibilities to members and acts as a connecting point to top management and/or to a steering committee. (Dionne, 1988; Meckl, 2004) The study has identified three main structure patterns of an acquisition team and its sub teams. These patterns are ideal and in a real situation the same team could use different patterns simultaneously, according to the task at hand. In the first pattern, members in the acquisition team are simultaneously leaders of sub teams that complete a specific task. In the second pattern, members of the team are coordinating and controlling sub teams, without active involvement. The third pattern has a team, where all sub teams exist inside of the acquisition team and all members are involved in the process. Unfortunately, similar partition to patterns of acquisition team structures has not been found in either scientific or managerial literature.

**The usage of outsiders.** Triantis and this study agree that few deals can be made without the involvement of outsiders, who bring special expertise and local practise. (Triantis, 1999) Triantis's views, along with those of this study conclude that in general, outsiders have a similar fee system around the world. The legal, audit and other advisers charge the acquirer by the spent time or based on the amount of work. Instead, investment bankers charge a percent based success fee with some variation in a flat fee. (Triantis, 1999) Together with Hubbard, the study states that the best incentives for outsiders are long term relations, personal connections and a partnership. (Hubbard, 2001) The study results in that the choice of outsiders is usually made based on the representatives and their level of expertise, previous relationships and reputation of the company. Outsiders are not used in every stage. At strategic phase usage is very rare, only management consulting companies, who are not involved further in the acquisition process. At searching and analysing phases usage is more common, mainly of investment banks. Due diligence is rarely performed without the assistance of outsiders, such as legal, audit, financial, environmental, human resource and other advisors and investment banks. Sometimes, an outsider can become a member of a sub team or a task could be totally outsourced to an outsider. In contradiction to Triantis, negotiations are commonly made by the acquirer himself. During the closing phase outsiders are used



for structuring the deal and for drawing up agreements and required documents. (Pearson, 1983; Pento, 1990; Triantis, 1999; Meckl, 2004)

**Stress of skills.** The main finding of this study is that skill should be divided into two groups, one group representing the skills that should be present in-house and the other group embracing all the other skills that can be outsourced, or brought in by an outsider. The most critical skill which should be in-house is acquisition expertise. Especially, it should have core members that are involved in an acquisition to coordinate acquisition team members and delegate tasks. Marketing and strategy skills are important to have in-house for creating acquisition criteria on the corporate strategic level and implement those criteria. Marketing skill, together with operational skill provide realistic future perspectives, plans, and scenarios. Thus, marketing, strategy and operational skills are essential to have in-house. Also negotiation skill with an extension of deal making expertise is vital for the acquisition's outcome and important to have in-house. The legal skill is an important part of numerous steps in the acquisition process. However, this skill could be brought by outsiders. In the same way, auditing and finance skills can easily be extracted from outsiders. Some acquisitions require human resource and environmental expertise. Each international acquisition needs target market expertise, which, in combination with other required skills, generally brought by local outsiders.

**International perspective.** The study concurs with Schweiger et al., who wrote that the real multinationals have an advantage in connections, networks and experience in a target market, compared to international companies for whom acquisitions are a market entry mode. (Schweiger et al, 1993 Multinationals tend to have more experience in completing acquisitions than international companies. For truly global companies, an international perspective can only noticed in large deals, when an international acquisition team is assembled. The study agrees with Triantis in that an international perspective of acquisitions force acquirers to use local outsiders. (Triantis, 1999) However, in the empirical section appeared some exceptions where acquirers brought some specialists from their home market. The international factor is noticeable in every phase of the acquisition process. It spans the duration of the process and makes it more

complicated. An international acquisition requires a longer time investment and the ability to take higher risk. Also, an international acquisition project tends to pull people with a more international background to acquisition teams. There is a need to use international outsiders, who are more difficult to coordinate. The coordination of local outsiders will need more patience and interculturiness. In addition, making a research in the foreign country and international meetings with a potential target are not similar to domestic ones. International negotiations have a lower level of trust between parties and the position of members plays a higher role. The language of negotiation is usually English, which for the most part is not a mother tongue for both parties. This creates a risk of misunderstanding. The usage of an interpreter makes this risk even higher and adds a risk of misinterpretation. Finally, agreements and all related documentation are more advanced in the international acquisitions.

The amount of international acquisitions will probably continue to grow and it will become a more and more important subject. Scientific studies will most likely follow and the amount of studies concerning the management of international acquisitions will also increase. Chapter 5.3 will present suggestions for future studies.

The subject of this thesis is management of international acquisitions during the pre-acquisition process in terms of involved expertise and architecture of acquisition teams in the Finnish based companies. Unfortunately, similar studies have not been found and it is probable that there are no such studies done with a similar research question. That makes it difficult to estimate the achievement made by this study, since there are no clear comparables. Chapter 5.2 will present some discussion on the subject of achievement of the goal and aims of this thesis.

## **5.2 Discussion**

This part will discuss the successfulness of gathered results in this study. The most difficulties of achieving aims of the study were the polyhedral nature of acquisitions. That make study them more demanding, but in the same time more interesting and many-sided. The goal of the study was not to find the best or most successful way of managing acquisitions; there is no such. The acquisitions are unique processes which require ad hoc solutions and there is no panacea. However, there are many ways to the success, but unfortunately even more ways to the failure.

In the introduction chapter study has presented its aims, the achievement of those would be discussed here. The aim of identifying acquisition process into small steps has been successfully achieved. The theoretical model was created and compared to the reality; differences have been identified. The aim of highlighting international aspect of managing acquisition has been also achieved.

The aim of mapping the management of international acquisitions, had difficulties to create a theoretical base, due to a lack of the literature concerning the subject. The practical study had also problematic in identifying the decision making process of acquisition teams and the alignment of power and authority in the organizational structure, due to the limited capacity of interviews. However, the biggest part of this aim has been successfully achieved, like mapping the structure of acquisition projects; the organization of teams and sub team, the architecture and the usage of outsiders.

The aim of identifying relevant skills for the pre-acquisition process has been partly achieved. There is a clear lack of scientific literature in the subject. The theoretical base has been built mostly on managerial articles and that makes it a little bit unsteady. However, there were no contradiction between the framework and made interviews, which justifies the adequacy of the framework. The study hasn't deepened into



comparing importance of each skill in the relation to each other. The reason for that were limited time of interviews and the general discrepancy of managers in regarding that some of skills are more important than others. However, the framework has missed the importance of a legal expertise, which kept highly important in the empirical study. There is one skill that framework has totally overlooked, it is a negotiation skill, which is highly important in an every dealing, especially in such big as acquisitions.

In general, the research problem of the study have been answered and the way how Finnish based companies managed and organized international acquisitions, in terms of creating acquisition team and coordinating process have been identified and presented. In the most parts the thesis have reached its aims and fulfilled the subject, which is: management of international acquisitions, with the perspective of pre-acquisition process in terms of expertises' involved and the architecture of acquisition teams in the Finnish based companies.

### **5.3 Recommendations for further studies**

In this part the study will be presented recommendations for future studies, which would be based on questions which had arisen during the study, but did not fit into its scope.

#### *Learning by doing*

In some stage of internalization process, studied companies started to make international acquisition. In general, during first deals acquirers didn't have any international acquisition expertise and many of those deals had brought unsatisfactory results. Simultaneously, managers have claimed that they learn a lot during these deals, which most probably meant that they learned by their own mistakes. These mistakes have a huge price and some of them could lead a corporation to the crisis. These have been seen in numerous cases and common in many other companies which making the first big moves abroad.

It is very irrational and a costly way of getting expertise. For this study it left incomprehensible for what reason this happens. The reason for that could be numerous: lack of appropriate talents on the labour market; first time acquirers didn't keep the acquisition expertise as an important part for the acquisition success; etc.

#### *Entry mode*

In many cases acquisitions were the first entry mode in the target country. This way of internalization is much more risky and capital consuming. At one hand acquisition is the fastest way, but at another hand buying company from the unfamiliar area, brings a lot of uncertainty to an acquirer.

According to Prasad, older and more established ventures favoured acquisitive internationalization, whereas younger ventures favoured other means of internationalizing, such as converting their own agencies into subsidiaries, distribution through worldwide networks, and through acquisitions. (Mansumittrachai et al, 1999)

Kogut and Singh found that the cultural distance affected the entry mode decision. Acquisitions were favoured over joint ventures and green-field investments in markets at a low cultural distance. (Kogut and Singh, 1988)

The possible question could be: How often and were Finnish companies preferred acquisitions as an entry mode? What are the main reasons for that? How the top management justifies an acquisition option to the corporation owners?

#### *Successes and Failures*

There are views that some acquirers are more successful than other. For example in one study acquirers have been divided into six groups by their amount of made acquisitions. The successfulness has depended on the way and the experience in acquisitions: *Carnivores* – habitual acquirers; highly successful. *Daily farmers* – extracting value by insisting on financial disciplines to target; highly successful acquirers. *Vegetarians* – indecisive and uncertain; poor acquirers. *White Hunters* – raiding for profit; moderately successful acquirers. *Gentleman shooters* – big game occasionally; moderately successful acquirers. *Cross-breeders* – hybrids, new forms; moderately successful acquirers. (Business International, 1988)

Hise bring up some evidences, that shows that acquisitions succeed more often, when they stay as an independent unit and the old management stays to manage them. (Hise, 1991)

There are a lot of other views that explaining successes and failures. However, all successfulness studies have a lot of assumptions and limitations which makes them less relevant and reliable. In this thesis interviewees had answered how often they succeed in acquisitions, the answers were very different, which was affecting by how companies perceive their success. The possible studies could be: Does and how acquirers measure own success? Do companies have enough self criticism in regarding afterwards acquisitions?



#### *Country specific aspects*

This study had limited itself of take country specific differences into account. However, there are huge differences according to countries and leading from interviews for Finnish companies is much easier to do acquisition in Sweden than in Russia, which is natural. However, it would be interesting to know where these differences are concentrated. Is it all about negotiation process, or documentation and reporting legislation differences? Are there any other aspects which are changing according to a country?

#### *Perspective*

The specific of international acquisitions is polyhedral and there are a lot of different parties are involved. Usually acquisitions are studied from managerial point of view; however, it could be seen from numerous perspectives. The typical views are: For owner of an acquirer acquisitions are big investments which should generate result. For top management – the allocation of capital. From managerial perspective – cross-functional projects which are demanding in managing. From specialists/members point of view – intensive and time consuming projects with short deadlines and a time pressure. For outside companies – good paid projects. From seller of target point of view – a reward for the many years work. Like mentioned above acquisitions are mainly studied from managerial perspective, however, it is important to have other perspectives as well for holistic understanding of the acquisition process.

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Ittonen Nils, SanomaWSOY Oyj, Director, Finance and Investments, 21.03.2006, 1 h 50 min.

Jääskeläinen Antti, Stora Enso Oyj, Vice President, Corporate Strategy Investment and Business Planning, 03.03.2006, 40 min.

Karttinen Timo, Fortum Oyj, Senior Vice President, Corporate Development, 14.03.2006, 1 h.

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Rautaruukki Oyj	– Annual Report 2005
SanomaWSOY Oyj	– Annual Report 2005
Stora Enso Oyj	– Annual Report 2005
Tietoenator Oyj	– Annual Report 2005

## Appendix 1

### 1A – Ostavan yrityksen taustatiedot

Ostaja-yrityksen nimi: \_\_\_\_\_

Mikä oli viime tilikauden liikevaihto: \_\_\_\_\_ €.

Kyseisen vuoden ulkomaantoimintojen prosentuaalinen osuus: \_\_\_\_\_ %.

Omistuksen (taseen osuus) prosentuaalinen osuus ulkomaissa: \_\_\_\_\_ %.

Ensimmäinen ulkomaan toiminta alkoi vuonna \_\_\_\_\_, joka oli \_\_\_\_\_.

### 1B – Kohdeyrityksien taustatiedot

Mikä on ollut kohteen keskimääräinen koko suhteessa teidän yrityksenne?

▪ Liikevaihdolta?

☐ alle 10%, ☐ 10–25%, ☐ 25–50%, ☐ 50–75%, ☐ 75–100%, ☐ yli 100%

▪ Henkilöstömäärältä?

☐ alle 10%, ☐ 10–25%, ☐ 25–50%, ☐ 50–75%, ☐ 75–100%, ☐ yli 100%

Mikä oli toimintaketjun  
suhde kohdeyritykseen,  
eli yritysoston tyyppi:

Ruksilla merkitään  
mahdolliset vaihtoehdot.

- ☐ **Horizontaalinen** (ostajayritys ja kohde tuottavat samanlaisia ja/tai samankaltaisia suoritteita)
- ☐ **Vertikaalinen** (ostajayritys ja kohde osallistuvat saman loppusuoritteeseen tuottamiseen tuotantoketjun eri vaiheissa)
- ☐ **Konsentraalinen** (ostajalla ja kohteella on joitakin samoja ei-ydin toimintoja)
- ☐ **Konglomeraattinen** (ostajayrityksen ja kohteen välillä ei ole toiminnallista samankaltaisuutta)

Oliko ostajayrityksen ja kohteen välillä  
aikaisempaa suhdetta?

Ruksilla merkitään mahdolliset vaihtoehdot.

Jos oli edeltävä suhde, niin mikä oli suhteen  
läheisyys?

1                  2                  3                  4                  5  
hyvin etäinen    läheinen

- ☐ ei aikaisempaa
- ☐ paikallinen agentti
- ☐ edustaja
- ☐ tavarantoimittaja
- ☐ asiakas
- ☐ kilpailija
- ☐ muu \_\_\_\_\_

## 2 – Yleiset tiedot tehdyistä yritysostoista

**Ulkomaan yritysostojen määrä:**

Viime vuonna \_\_\_\_\_ ja kaiken kaikkiaan noin \_\_\_\_\_.

**Onko yrityksellänne ohjekirja/muistilista yritysostojen tueksi?** ☐ Kyllä, ☐ Ei

**Mitkä ovat yleisimmät maat ja alueet joissa yritysostot on tehty?** \_\_\_\_\_

**Mikä on yleisin operoitu tapa ennen yritysostoa kohdemaassa?** \_\_\_\_\_

**Onko yritysosto koskaan maan / alueen ensimmäinen maahan(sisään)tulo muoto?**  
☐ Usein, ☐ Harvoin, ☐ Ei koskaan

**Verrattuna teidän etukäteisodotuksiin kuinka usein yrityksenne yrityskauppa onnistuu?** ☐ Aina, ☐ Usein, ☐ Puolissa tapauksessa, ☐ Harvoin, ☐ Ei koskaan

**Mistä yritysosto aloite yrityksessänne yleensä lähtee?**

- ☐ Omistajat
- ☐ Hallintoneuvosto
- ☐ Ylin johto
- ☐ Yritystostosasto
- ☐ Ulkopuoliset tahot

Ruksilla merkitään mahdolliset vaihtoehdot.

**Onko yrityksellänne yritysoston toteuttamiseen liittyvää budjettia?**  
☐ Kyllä, ☐ Liukuva budjetti / Suunta antava, ☐ Ei

**Miten kustannukset yritysoston toteuttamisesta lasketaan ja kohdistetaan?**

**Käyttäkö yrityksenne yritysostoa toteuttaessaan:**

- ☐ Ylin johtoryhmä (vastaa 2A)
- ☐ Projekti ryhmä (vastaa 2B)
- ☐ Yritysosto osasto (vastaa 2C)
- ☐ Suunnittelu osasto (vastaa 2C)
- ☐ Apuna ulkopuoliset tahot (vastaa 2D)

Ruksilla merkitään mahdolliset vaihtoehdot. Jokaista kohtaan vastaa oma kysymys osio.



## 2A – Ylin johtoryhmä yritysostoja tehtäessä

Täyttäkää tämä osio vain jos yrityksenne on tehnyt yritysostoja käyttäen ylintä johtoryhmää.

**Ketkä osallistuvat prosessiin  
sekä osallistujien tärkeys /  
kriittisyys**

Ruksilla merkitään mahdolliset  
vaihtoehtoot.

Tärkeys 1 – 5:

1 – ei lainkaan tärkeä

2 – ei kovin tärkeä

3 – melko tärkeä

4 – erittäin tärkeä

5 – ”kuningas valta”

☐ Hallituksen puheenjohtaja \_\_\_\_\_

☐ Muut hallituksen jäsenet \_\_\_\_\_

☐ Toimitusjohtaja \_\_\_\_\_

☐ Yhtiön tuotantojohtaja \_\_\_\_\_

☐ Yhtiön markkinointijohtaja \_\_\_\_\_

☐ Yhtiön talousjohtaja \_\_\_\_\_

☐ Yritysostoista / Kehityksestä  
vastaava henkilö yhtiötasolla \_\_\_\_\_

☐ Osaston tuotantojohtaja \_\_\_\_\_

☐ Osaston markkinointijohtaja \_\_\_\_\_

☐ Osaston talousjohtaja \_\_\_\_\_

☐ Tytäryhtiön edustaja \_\_\_\_\_

☐ Muu työntekijä \_\_\_\_\_

☐ Ulkopuolinen henkilö  
/ryhmä yritys \_\_\_\_\_

☐ Muu, mikä? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Miten vaikutusvalta jakautuu ylimmän johdon ja hallituksen välillä?**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Mitkä päätökset siirretään ja tarkistetaan hallitukselta?**

\_\_\_\_\_

\_\_\_\_\_

**Kuka jäsenistä on yleensä vastuussa yritysostosta?**

\_\_\_\_\_

## 2B – Projektiryhmä tehtäessä yritysostoja

Täyttäkää tämä osio vain jos yrityksenne on tehnyt yritysostoja käyttäen projektiryhmää.

**Ketkä yleensä kokoavat projektiryhmän ja valvovat sen toimintaa**

Ruksilla merkitään mahdolliset vaihtoehtoot.

- ☐ Hallituksen puheenjohtaja
- ☐ Muut hallituksen jäsenet
  
- ☐ Toimitusjohtaja
- ☐ Yhtiön tuotantojohtaja
- ☐ Yhtiön markkinointijohtaja
- ☐ Yhtiön talousjohtaja
- ☐ Yritysostoista / Kehityksestä vastaava henkilö yhtiötasolla
  
- ☐ Osaston tuotantojohtaja
- ☐ Osaston markkinointijohtaja
- ☐ Osaston talousjohtaja
- ☐ Tytäryhtiön edustaja
- ☐ Muu työntekijä
  
- ☐ Ulkopuolinen henkilö /ryhmä yritys
  
- ☐ Muu, mikä?
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

**Millä perustein projektiryhmän kootaan? Miten jäsenet valitaan?**

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**Miten vaikutusvalta jakautuu ylimmän johdon ja projektiryhmän välillä?**

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**Mitkä päätökset siirretään ja tarkistetaan ylimmältä johdolta?**

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**Minkälaiset asiat vaikuttavat tiimin kokoamiseen?**

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**Missä projektiryhmä koottu?**

**vaiheessa on**

Ruksilla merkitään mahdolliset vaihtoehdot.

- ☐ **Strateginen vaihe** (motiivien, ostokriteerien ja tavoitteiden määrittäminen)
- ☐ **Etsintä vaihe** (potentiaalisen ostokohde ryhmän identifioiminen)
- ☐ **Pinnallinen analyysi** (kaikkeen saatavilla olevaan informaation perustuva karsinta)
- ☐ **Syvällinen analyysi** (muutaman potentiaalisen kohteen syvällisempi tutkiminen, ns. due diligence)
- ☐ **Neuvottelut** (kontaktit kohteeseen ja neuvottelut, ns. koko vuorovaikutus)
- ☐ **Sulkeminen** (loppuhinnan ja yritysostomuodon hyväksyntä, transaktion ja integraation suunnittelu)

**Kuvaile ryhmässä olleiden henkilöiden asemat sekä roolien tärkeys projektiryhmässä (1 – ei lainkaan tärkeä, 2 – ei kovin tärkeä, 3 – melko tärkeä, 4 – erittäin tärkeä, 5 – ”kuningas valta”).**

Asema	Rooli	M&A kokemus	Kriittisyys prosessin kannalta				
1. _____	_____	Kyllä / Ei	1	2	3	4	5
2. _____	_____	Kyllä / Ei	1	2	3	4	5
3. _____	_____	Kyllä / Ei	1	2	3	4	5
4. _____	_____	Kyllä / Ei	1	2	3	4	5
5. _____	_____	Kyllä / Ei	1	2	3	4	5
6. _____	_____	Kyllä / Ei	1	2	3	4	5
7. _____	_____	Kyllä / Ei	1	2	3	4	5
8. _____	_____	Kyllä / Ei	1	2	3	4	5
10. _____	_____	Kyllä / Ei	1	2	3	4	5

**Osallistuuko jokainen jäsen oman alansa ulkopuolisten tahojen koordinoinnissa?**

☐ Kyllä, ☐ Ei, Miten? \_\_\_\_\_

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## 2C – Yritysosto- tai suunnittelu- osasto tehtäessä yritysostoja

Täyttäkää tämä osio vain jos yrityksenne on tehnyt yritysostoja käyttäen yritysosto- tai suunnittelu-osastoa.

### Kuvaile ryhmässä olleiden henkilöiden asemat sekä roolien tärkeys projektiryhmässä

Asema	Rooli	Osastolla vuodesta	Pääosaaminen
1. _____	_____	_____	_____
2. _____	_____	_____	_____
3. _____	_____	_____	_____
4. _____	_____	_____	_____
5. _____	_____	_____	_____
6. _____	_____	_____	_____
7. _____	_____	_____	_____
8. _____	_____	_____	_____
10. _____	_____	_____	_____

### Jäsenien tärkeys jokaisessa alkuprosessin vaiheessa

(1 – ei lainkaan tärkeä; 2 – ei kovin tärkeä; 3 – melko tärkeä; 4 – erittäin tärkeä; 5 – ”kuningas valta”):

Jäsen	Strategia	Etsintä ja seulonta	Karsiminen	Syvällinen tutkimus	Neuvottelut	Kaupan sulkeminen	Koko alkuprosessi
1. _____	_____	_____	_____	_____	_____	_____	_____
2. _____	_____	_____	_____	_____	_____	_____	_____
3. _____	_____	_____	_____	_____	_____	_____	_____
4. _____	_____	_____	_____	_____	_____	_____	_____
5. _____	_____	_____	_____	_____	_____	_____	_____
6. _____	_____	_____	_____	_____	_____	_____	_____
7. _____	_____	_____	_____	_____	_____	_____	_____
8. _____	_____	_____	_____	_____	_____	_____	_____
9. _____	_____	_____	_____	_____	_____	_____	_____
10. _____	_____	_____	_____	_____	_____	_____	_____

Onko ryhmällä johtajaa (team leader)?

☐ Ei, ☐ Kyllä, se on \_\_\_\_\_

Onko hän myös projektin päävastuullinen ylimmälle johdolle?

☐ Kyllä, ☐ Ei

**Osallistuuko hän myös muiden jäsenten koordinoinnissa?**

☐ Kyllä, ☐ Ei, se tapahtuu enemmän ryhmätyönä

**Kuinka läheinen yhteistyö on yritysosaston ja ylimmän johdon välillä?**

- 1 - ei lainkaan yhteistyötä
- 2 - vähäinen yhteistyö
- 3 - tavallinen yhteistyö
- 4 - läheinen yhteistyö
- 5 - erittäin tiivis yhteistyö

**Strateginen vaihe** (motiivien, ostokriteerien ja tavoitteiden määrittäminen)

**Etsintä vaihe** (potentiaalisen ostokohde ryhmän identifioiminen)

**Pinnallinen analyysi** (kaikkeen saatavilla olevaan informaation perustuva karsinta)

**Syvällinen analyysi** (muutaman potentiaalisen kohteen syvällisempi tutkiminen, ns. due diligence)

**Neuvottelut** (kontaktit kohteeseen ja neuvottelut, ns. koko vuorovaikutus)

**Sulkeminen** (loppuhinnan ja yritysosastomuodon hyväksyntä, transaktion ja integraation suunnittelu)

**Mitkä päätökset tarkistetaan ylimmältä johdolta?**

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**Missä vaiheessa yritystoa prosessi on siirretty osastolle? (esim. osallistuuko se luomiseen?)**

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**Osallistuuko jokainen jäsen oman alansa ulkopuolisten tahojen koordinoinnissa?**

☐ Kyllä, ☐ Ei, Miten?

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**Mikä on jäsenten keskimääräinen vaihtuvuus?**

**Miten vaikutusvalta jakautuu ylimmän johdon ja projektiryhmän välillä?**

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## 2D – Ulkopuolisten tahojen käyttö apuna tehtäessä yritysostoja

Täyttää tämä osio vain jos yrityksenne on tehnyt yritysostoja käyttäen apuna ulkopuolisten tahoja.

**Kuinka usein käytätte ulkopuolisia yrityksiä?** ☐ Joka kerta, ☐ Joskus, ☐ Harvoin

<b>Missä vaiheissa yleensä ulkopuolisia tahoja käytetään?</b>	<input type="checkbox"/>	<b>Strateginen vaihe</b> (motiivien, ostokriteerien ja tavoitteiden määrittäminen)	_____
	<input type="checkbox"/>	<b>Etsintä vaihe</b> (potentiaalisen ostokohde ryhmän identifioiminen)	_____
	<input type="checkbox"/>	<b>Pinnallinen analyysi</b> (kaikkeen saatavilla olevaan informaation perustuva karsinta)	_____
	<input type="checkbox"/>	<b>Syvällinen analyysi</b> (muutaman potentiaalisen kohteen syvällisempi tutkiminen, ns. due diligence ja audit)	_____
	<input type="checkbox"/>	<b>Neuvottelut</b> (kontaktit kohteeseen ja neuvottelut, ns. koko vuorovaikutus)	_____
	<input type="checkbox"/>	<b>Sulkeminen</b> (loppuhinnan ja yritysostomuodon hyväksyntä, transaktion ja integraation suunnittelu)	_____
	<input type="checkbox"/>	<b>Oston rahoittamisessa</b>	_____

**Millä perusteilla ulkopuoliset tahot valitaan?** \_\_\_\_\_

**Kuinka iso luottamus on ulkopuolisiin?** ☐ Heikko, ☐ Keskisuuri, tai ☐ Vahva

**Vaihtelee ko luottamus eri ulkopuolisten välillä?** ☐ Ei, ☐ Jonkin verran, ☐ Suuresti

**Onko yrityksellänne tarkistuskoneismetja?** ☐ Ei, tai ☐ Kyllä

**Miten ulkopuolisille hyvitetään työt?**  
☐ Kertapalkkio, ☐ Käytetyn ajan hyvitys, tai ☐ Muu, mikä? \_\_\_\_\_

**Miten ulkopuolisten toiminta käytännössä koordinoitaan?** \_\_\_\_\_



### 3 – Prosessi ja sen osat:

Tässä osassa kysytään yritysosto prosessista ja erityisesti ennen transaktiota tapahtuvasta osiosta. Tämä tutkielma jakaa sen kuuteen eri vaiheeseen:

- **Strategia vaihe** (motiivien, ostokriteerien ja tavoitteiden määrittäminen)
- **Etsintä vaihe** (potentiaalisten ostokohde ryhmän identifioiminen)
- **Pinnallinen analyysi** (kaikkiin vapana olevan informaation perustuva karsinta)
- **Syvällinen analyysi** (muutamien potentiaalisten kohteiden syvällisempi tutkiminen, ns. due diligence ja audit)
- **Neuvottelut** (kontaktit kohteeseen ja neuvottelut, ns. koko vuorovaikutus)
- **Sulkeminen** (loppuhinnan ja yritysostomuodon hyväksyntä, transaktion ja integraation suunnittelu)

Mitkä alkuprosessin osat ovat kriittisimpiä yritysoston onnistumiselle?

Anna tärkeysjärjestys 1 – 6:  
1 on tärkein  
6 on vähiten tärkeä

- \_\_\_ Strateginen vaihe
- \_\_\_ Kohteiden etsintä
- \_\_\_ Kohteiden pinnallinen analyysi
- \_\_\_ Due diligence ja audit
- \_\_\_ Neuvottelut
- \_\_\_ Sulkeminen

Mitkä osaamiset ovat tärkeitä koko prosessin kannalta?

Merkitse tärkeys numeroin, 1 – 5.  
Desimaaleja saa myös käyttää.

- 1 – ei lainkaan tärkeä
- 2 – ei kovin tärkeä
- 3 – melko tärkeä
- 4 – erittäin tärkeä
- 5 – ”kuningas valta”

- \_\_\_ Kirjanpito ja laskentatoimi
- \_\_\_ Rahoitus
- \_\_\_ Lakitieto
- \_\_\_ Henkilöstöhallinto
- \_\_\_ Markkinointi ja strategia
- \_\_\_ ”M&A” osaamista
- \_\_\_ Riski hallinta
- \_\_\_ Kohdemaan asiantuntemus
- \_\_\_ Operaatio osaamista
- \_\_\_ Muu, mikä?

Onko jostain osaamisesta puutetta?

☐ Ei, ☐ Kyllä, jos kyllä niin Mistä? \_\_\_\_\_

Onko mahdollista arvioida jokaisen vaiheen pituutta?

☐ Ei, tai ☐ Kyllä,  
Jos kyllä niin tee oikealla  
arvio viikoissa.

- \_\_\_ Strateginen vaihe
- \_\_\_ Kohteiden etsintä
- \_\_\_ Kohteiden pinnallinen analyysi
- \_\_\_ Due diligence ja audit
- \_\_\_ Neuvottelut
- \_\_\_ Sulkeminen

### 3A – Strateginen vaihe – Motiivit ja kriteerit

**Mitkä osaamiset ovat tärkeitä strategisen vaiheen kannalta?**

Merkitse tärkeys numeroin, 1 – 5.  
Desimaaleja saa myös käyttää.

- 1 – ei lainkaan tärkeä
- 2 – ei kovin tärkeä
- 3 – melko tärkeä
- 4 – erittäin tärkeä
- 5 – ”kuningas valta”

- ☐ Kirjanpito ja laskentatoimi
- ☐ Rahoitus
- ☐ Lakitieto
- ☐ Henkilöstöhallinto
- ☐ Markkinointi ja strategia
- ☐ ”M&A” osaamista
- ☐ Riski hallinta
- ☐ Kohdemaan asiantuntemus
- ☐ Operaatio osaamista
- ☐ Muu, mikä?

\_\_\_\_\_  
\_\_\_\_\_

**Kuinka monta jäsentä yleensä osallistuu etsimiseen?** \_\_\_\_\_

**Keitä he ovat?** \_\_\_\_\_

**Kuinka aktiivinen ylin johto on tässä vaiheessa? Minkälainen on osallistuminen?**

☐ Passiivinen, ☐ Normaali, ☐ Aktiivinen

**Kuka määrää motiivit ja ostokriteerit?**

Ruksilla merkitään mahdolliset vaihtoehtoot.

- ☐ Hallitus
- ☐ Ylin johtoryhmä
- ☐ Yritystalon toteuttajat / Suunnittelu osasto
- ☐ Apuna olevat ulkopuoliset tahot

**Kuka seuraa että strategiset kriteerit toteutuvat jokaisessa yritysosto vaiheessa?**

\_\_\_\_\_

**Miten strategia syntyy käytännössä?**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

### 3B – Etsintä ja seulonta

**Mitkä osaamiset ovat tärkeimpiä etsinnän ja seulonnan kannalta?**

Merkitse tärkeys numeroin, 1 – 5.  
Desimaaleja saa myös käyttää.

- 1 – ei lainkaan tärkeä
- 2 – ei kovin tärkeä
- 3 – melko tärkeä
- 4 – erittäin tärkeä
- 5 – ”kuningas valta”

- \_\_\_ Kirjanpito ja laskentatoimi
- \_\_\_ Rahoitus
- \_\_\_ Lakitieto
- \_\_\_ Henkilöstöhallinto
- \_\_\_ Markkinointi ja strategia
- \_\_\_ ”M&A” osaamista
- \_\_\_ Riski hallinta
- \_\_\_ Kohdemaan asiantuntemus
- \_\_\_ Operaatio osaamista
- \_\_\_ Muu, mikä?

\_\_\_\_\_  
\_\_\_\_\_

**Kuinka monta jäsentä yleensä osallistuu etsimiseen?** \_\_\_\_\_

**Keitä he ovat?** \_\_\_\_\_

**Kuinka aktiivinen ylin johto on tässä vaiheessa? Minkälainen on osallistuminen?**

☐ Passiivinen, ☐ Normaali, ☐ Aktiivinen

**Minkälaisia menettelytapoja yrityksenne käyttää etsinnässä?**

Ruksilla merkitään mahdollinen vaihtoehto.

- ☐ **Aktiivinen etsintä** (ostaja lähestyy aktiivisesti kiinnostavia ostoehtokkaita)
- ☐ **”Trap” etsintä** (ostaja ottaa yhteyttä eri asiantuntijoihin /välittäjiin (investointi pankki, meklari, etc.) tutkiakseen heillä olevaa tietoa mahdollisista ostokohteista)
- ☐ **Passiivinen etsintä** (ostaja odottaa passiivisesti että häntä lähestytään tarjouksella myytävänä olevasta yrityksestä)

**Kuinka monta potentiaalista kohdetta on yleensä etsinnän jälkeen?** \_\_\_\_\_

**Mitä kanavien kautta etsintä tapahtuu?** \_\_\_\_\_

**Miten etsintä ja seulonta käytännössä tapahtuu?**

\_\_\_\_\_  
\_\_\_\_\_



### 3C – Pintatutkimus ja karsinta

**Mitkä osaamiset ovat tärkeitä pintatutkimuksen kannalta?**

Merkitse tärkeys numeroin, 1 – 5.  
Desimaaleja saa myös käyttää.

- 1 – ei lainkaan tärkeä
- 2 – ei kovin tärkeä
- 3 – melko tärkeä
- 4 – erittäin tärkeä
- 5 – ”kuningas valta”

- \_\_\_ Kirjanpito ja laskentatoimi
- \_\_\_ Rahoitus
- \_\_\_ Lakitieto
- \_\_\_ Henkilöstöhallinto
- \_\_\_ Markkinointi ja strategia
- \_\_\_ ”M&A” osaamista
- \_\_\_ Riski hallinta
- \_\_\_ Kohdemaan asiantuntemus
- \_\_\_ Operaatio osaamista
- \_\_\_ Muu, mikä?

\_\_\_  
\_\_\_

**Kuinka monta jäsentä yleensä osallistuu pintatutkimukseen ja karsintaan? \_\_\_\_\_**  
**Keitä he ovat? \_\_\_\_\_**

**Kuinka aktiivinen ylin johto on tässä vaiheessa? Minkälainen on osallistuminen? \_\_\_\_\_**  
☐ Passiivinen, ☐ Normaali, ☐ Aktiivinen

**Mitä informaatiota on mahdollista saada tässä vaiheessa?**

**Mitkä ovat yleensä karsinta kriteerit (liikevaihto, markkinaosuus, tulos, henkilöstö, maine, tuote, etc.)?**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Kuinka monta potentiaalista kohdetta on karsinnan jälkeen? \_\_\_\_\_**

**Miten pintatutkimus ja karsinta käytännössä tapahtuu?**

\_\_\_\_\_  
\_\_\_\_\_  
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\_\_\_\_\_  
\_\_\_\_\_

### 3D – Syvä tutkimus – Due Diligence ja Audit

#### Mitkä osaamiset ovat tärkeitä syvä tutkimuksen kannalta?

Merkitse tärkeys numeroin, 1 – 5.  
Desimaaleja saa myös käyttää.

- 1 – ei lainkaan tärkeä
- 2 – ei kovin tärkeä
- 3 – melko tärkeä
- 4 – erittäin tärkeä
- 5 – ”kuningas valta”

- \_\_\_ Kirjanpito ja laskentatoimi
- \_\_\_ Rahoitus
- \_\_\_ Lakitieto
- \_\_\_ Henkilöstöhallinto
- \_\_\_ Markkinointi ja strategia
- \_\_\_ ”M&A” osaaminen
- \_\_\_ Riski hallinta
- \_\_\_ Kohdemaan asiantuntemus
- \_\_\_ Operaatio osaamista
- \_\_\_ Muu, mikä?

\_\_\_  
\_\_\_

Kuinka monta jäsentä yleensä osallistuu syvä tutkimukseen? \_\_\_\_\_

Keitä ne ovat? \_\_\_\_\_

Kuinka aktiivinen ylin johto on tässä vaiheessa? Minkälainen on osallistuminen?

☐ Passiivinen, ☐ Normaali, ☐ Aktiivinen

#### Mikä on yleensä painotus tehdyissä syvä tutkimuksissa?:

Merkitse numeroin 1 – 5:  
1 on ei ollenkaan tärkeä  
3 on melko tärkeä  
5 on erittäin tärkeä

- \_\_\_ Kirjanpito ja laskentatoimi
- \_\_\_ Yritysosastoja koskevat rahoitukselliset asiat
- \_\_\_ Ostokohdetta koskevat rahoitukselliset asiat
- \_\_\_ Tekniikkaan ja tuotantoon liittyvät näkökohdat
- \_\_\_ Markkinointiin liittyvät seikat
- \_\_\_ Henkilöstökysymykset
- \_\_\_ Juridiset näkökohdat
- \_\_\_ Synergiakysymykset
- \_\_\_ Riskikysymykset
- \_\_\_ Muu, mikä?

\_\_\_  
\_\_\_

Syy miksi talouden arvio on tehty:

Ruksilla \_\_\_\_\_ merkitään \_\_\_\_\_ mahdolliset  
vaihtoehdot.

- ☐ Määrittämiseen korkein mahdollinen hinta
- ☐ Käytettäväksi neuvottelun pohjaksi
- ☐ Esiteltäväksi osana investointisuunnitelmaa omassa yrityksessä

**Mistä informaatiosta on yleensä puute?** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Mitkä kriteerit määräävät ostokohteiden harvennuksen syvätutkimus vaiheessa, eli miten päädytte yhteen?** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Minkälaisia hankaluuksia maiden eroavat lakikäytännöt aiheuttavat?** \_\_\_\_\_  
\_\_\_\_\_

**Miten due diligence käytännössä tapahtuu?**  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



### 3E – Neuvottelut

#### Mitkä osaamiset ovat tärkeitä neuvottelujen kannalta?

Merkitse tärkeys numeroin, 1 – 5.  
Desimaaleja saa myös käyttää.

- 1 – ei lainkaan tärkeä
- 2 – ei kovin tärkeä
- 3 – melko tärkeä
- 4 – erittäin tärkeä
- 5 – ”kuningas valta”

- ☐ Kirjanpito ja laskentatoimi
- ☐ Rahoitus
- ☐ Lakitieto
- ☐ Henkilöstöhallinto
- ☐ Markkinointi ja strategia
- ☐ ”M&A” osaaminen
- ☐ Riski hallinta
- ☐ Kohdemaan asiantuntemus
- ☐ Operaatio osaamista
- ☐ Muu, mikä?

Kuinka monta jäsentä yleensä osallistuu neuvotteluihin? \_\_\_\_\_  
Keitä he ovat? \_\_\_\_\_

Kuinka aktiivinen ylin johto on tässä vaiheessa? Minkälainen on osallistuminen?  
☐ Passiivinen, ☐ Normaali, ☐ Aktiivinen

Korostuuko neuvotteluissa jäsenen asema?  
☐ Korostuu, ☐ Jonkin verran, ☐ Ei lainkaan

Sujuvatko neuvottelut yleensä ostajan tapojen mukaan?  
☐ Ostajan tapaan, ☐ Jotakin välillä, ☐ Myyjän tapaan

Mikä on yleisin neuvottelujen kieli? \_\_\_\_\_

Kuinka hyvä on molempien osapuolten yhteiskielitaito?  
☐ Erinomainen, ☐ Hyvä, ☐ Tyydyttävä, ☐ Heikko

Käytittekö neuvotteluja informaation lähteenä? ☐ Kyllä, ☐ Ei

Oliko teillä etukäteen sovittua neuvottelu taktiikka? Mikä se on?

- ☐ Hyvä ja paha, ☐ Yliasema, ☐ Syötti ja vaihto, ☐ Bluffaus, ☐ Aika paine,
- ☐ Neuvottelu tauot, ☐ Muu \_\_\_\_\_

Kuka yleensä ensimmäisenä antaa hintatarjouksen? ☐ Ostajat, ☐ Myyjät

Mihin hinta väittely yleensä perustuu?

- ☐ Toivottu summa, ☐ Rahoituksen malli, ☐ Markkinatilanne, ☐ Muu \_\_\_\_\_

Onko kohteen tulevaisuudesta keskusteltu? Mitkä ovat myyjän ei rahalliset huolet? Avainhenkilöiden jääminen kohdetta oliko keskusteltu? Miten neuvottelut käytännössä tapahtuu?

### 3F – Kaupan sulkeminen

**Mitkä osaamiset ovat tärkeitä kaupan sulkemiseen kannalta?**

Merkitse tärkeys numeroin, 1 – 5.  
Desimaaleja saa myös käyttää.

- 1 – ei lainkaan tärkeä
- 2 – ei kovin tärkeä
- 3 – melko tärkeä
- 4 – erittäin tärkeä
- 5 – ”kuningas valta”

- ☐ Kirjanpito ja laskentatoimi
- ☐ Rahoitus
- ☐ Lakitieto
- ☐ Henkilöstöhallinto
- ☐ Markkinointi ja strategia
- ☐ ”M&A” osaamista
- ☐ Riski hallinta
- ☐ Kohdemaan asiantuntemus
- ☐ Operaatio osaamista
- ☐ Muu, mikä?

**Kuinka monta jäsentä yleensä osallistuu kaupan sulkemiseen? \_\_\_\_\_**  
**Keitä he ovat? \_\_\_\_\_**

**Kuinka aktiivinen ylin johto on tässä vaiheessa? Minkälainen on osallistuminen?**  
☐ Passiivinen, ☐ Normaali, ☐ Aktiivinen

**Onko sovittu myyntihinta lopullinen vai riippuvainen joistain tekijöistä?**  
☐ Lopullinen, ☐ Riippuvainen kohteen tuloista (earnout), tai ☐ Muu, Mikä? \_\_\_\_\_

**Onko integraation suunnittelu alkanut ennen kaupan päättämistä? ☐ Ei, ☐ Kyllä**

**Jos, kyllä niin milloin se on alkanut**

Ruksilla merkitään oikea vaihtoehto.

- ☐ Strateginen vaihe
- ☐ Kohteiden etsintä
- ☐ Kohteiden pinnallinen analyysi
- ☐ Due diligence ja audit
- ☐ Neuvottelut
- ☐ Sulkeminen

**Minkälaisia hankaluuksia maiden eroavat lakikäytännöt aiheuttavat? \_\_\_\_\_**

**Miten kaupan sulkeminen käytännössä tapahtuu? Mikä on yleensä lopullinen hinta verrattuna kohden liikevaihtoon tai taseeseen?**

